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ABSTRACT

This curriculum guide incorporates the needed components to aid agriculture teachers in the implementation of the Vocational Instructional Management System in agribusiness sales, marketing, and management. The guide begins with a list of the competencies/objectives found in the nine units; list of references and materials; teaching calendar; and competency profile. The curriculum contains nine units, each consisting of two to nine lessons. Most lessons include: an introductory page with lesson title, competency/objective, study questions, and references; transparency masters and activity sheet(s); teaching procedures; motivational techniques; other activities; activity sheets; transparency masters; evaluations; answers to evaluations and activity sheets; references and teaching aids; and materials and equipment. Unit topics include the following: agriculture as an industry; economic principles in agribusiness; financial management; personal development; communication skills; preparing for a sale; making a sale; promotional tools; and entrepreneurship. A school-based business/fund-raising activity is appended. The student reference contains informational readings for each lesson and a glossary. (YLB)

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Instructor Guide
Student Reference

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Agribusiness Sales, Marketing, & Management

Instructor Guide

In cooperation with
Agricultural Education
Department of Practical Arts and Vocational Technical Education
College of Education and College of Agriculture,
Food and Natural Resources
University of Missouri Columbia

In Cooperation with
Agricultural Education Section
Division of Vocational and Adult Education
Elementary and Secondary Education
Jefferson City, Missouri

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Instructor Guide

AGRIBUSINESS SALES, MARKETING, AND MANAGEMENT

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FOREWORD

The development of the *Agribusiness Sales, Marketing, and Management* curriculum guide is the result of suggestions by the MVATA Teaching Aids Committee. The Agribusiness Sales, Marketing, and Management Advisory Committee suggested the topics to be included and reviewed the materials.

This curriculum contains nine units. The instructor guide includes: objectives, competencies, motivational techniques, teaching procedures, other activities, activity sheets, transparency masters, evaluations, answers to evaluations and activity sheets, references and teaching aids, and materials and equipment. Topics include agriculture as an industry, economic principles in agribusiness, financial management, personal development, communication skills, preparing for a sale, making a sale, promotional tools, and entrepreneurship. One copy of the student reference is packaged with the instructor guide. Additional copies of the student reference can be purchased separately.

During the summer of 1981, the Missouri State Board of Education formally adopted the concept of "Instructional Management Systems" (IMS) as a priority for the 1981-82 school year. The Missouri Commissioner of Education described the IMS concept as a practical way of "organizing for excellence" in education. To meet the demand for greater productivity and accountability, the director of Vocational Education applied the elements of IMS to form the Vocational Instructional Management System (VIMS). The VIMS process provides a framework to use in planning and organizing to assure excellence in Missouri's vocational education system by focusing greater attention on the management of teaching and learning.

This guide incorporates the needed components to aid agriculture teachers in the implementation of VIMS. For ease of use, performance objectives and competencies have been included at the beginning of the guide as well as incorporated within each lesson. A competency profile has been provided in the front of the guide for convenient record keeping.

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AGRIBUSINESS SALES, MARKETING, AND MANAGEMENT

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COMPETENCIES/OBJECTIVES

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1. Explain the role of agriculture in today's economy.
2. Identify opportunities for employment in agribusiness sales, marketing, and management.

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS
1. Describe how supply and demand interact to determine the price of agricultural commodities.
2. Determine the point of maximum net returns (profit) given a sample list of inputs and outputs and the prices of each.
3. Determine the per-unit fixed and variable costs of producing a given output.
4. Determine the most profitable amount of substitution for inputs and/or outputs in an agribusiness.
5. Identify the opportunity cost of choosing one economic alternative over another.
6. Identify the major markets for price discovery in the United States.
7. Explain how the government is involved in the economics of agriculture.

UNIT III - FINANCIAL MANAGEMENT
1. Explain how to manage financial resources.

2. Develop a budget.
3. Describe the sources of credit and credit guidelines.
4. Develop a savings and investment plan as part of a complete financial plan.

UNIT IV - PERSONAL DEVELOPMENT
1. Describe how to develop a positive work attitude.
2. Describe how to develop positive workplace relationships.
3. Describe how to receive and give criticism.
4. Describe what is considered to be ethical behavior in the workplace.
5. Use goals to plan projects and solve problems.
6. Develop stress management techniques.
7. Develop a plan for finding a job.
8. Develop a resume and complete a job application.
9. Explain how to apply and interview for a job.

UNIT V - COMMUNICATION SKILLS
1. Utilize verbal and nonverbal communication skills, as well as effective listening.
2. Use written communication skills in the sales process.
3. Describe the proper use of communications technology.

UNIT VI - PREPARING FOR A SALE
1. Differentiate between selling environments and the salesperson's role in each of these environments.
2. Identify different communication styles and use this information to improve the sales presentation technique.
3. Describe the factors that motivate a person to make purchases and how to identify these factors in an individual.
4. Describe how to obtain product, company, and industry knowledge and use it in a sales presentation.
5. Identify potential customers and the best method for approaching them.

UNIT VII - MAKING A SALE
1. Demonstrate techniques for building rapport with customers.
2. Identify customer needs.
3. Recognize the steps and tools involved in constructing an effective sales presentation.
4. Demonstrate techniques for closing a sale.
5. Identify the activities the salesperson must do after the sales presentation to maintain a long-term relationship with the customer.

UNIT VIII - PROMOTIONAL TOOLS
1. Describe the components and purpose of a promotional campaign.
2. Develop a print advertisement.
3. Develop a public relations campaign.

UNIT IX - ENTREPRENEURSHIP
1. Describe the basic concepts of a free market system.
2. Identify the forms and characteristics of business ownership.
3. Identify and evaluate business opportunities.
4. Prepare an income statement.
5. Prepare a balance sheet.
6. Summarize cash flow and project a statement of cash flows.
7. Describe how to obtain financing for a business.
8. Explain the importance of making business decisions.

EVALUATION

1. Give short, objective tests following each lesson and a more in-depth objective test at the conclusion of the unit.

2. Observe the changes in behavior as evidence of the improved ability of students to deal with problems in this unit using background information acquired from earlier units.

3. Observe students' attempts to solve similar problems in their supervised agricultural experience programs.

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AGRIBUSINESS SALES, MARKETING, AND MANAGEMENT

TEACHING CALENDAR

	Periods for Classroom Instruction/Activities	Length for Activity Sheets (AS)
Unit I, Lesson 1	2	AS 1.1 30 min.
Unit I, Lesson 2	3	AS 2.1 2 class periods
Unit II, Lesson 1	8	AS 1.1 30 min.
Unit II, Lesson 2	8	AS 2.1 30 min.
		AS 2.2 30 min.
		AS 2.3 30 min.
Unit II, Lesson 3	6	AS 3.1 10 min.
		AS 3.2 30 min.
Unit II, Lesson 4	6	AS 4.1 30 min.
		AS 4.2 30 min.
Unit II, Lesson 5	5	AS 5.1 10 min.
		AS 5.2 30 min.
Unit II, Lesson 6	12	AS 6.1 20 min.
		AS 6.2 40 min.
Unit II, Lesson 7	3	AS 7.1 2 class periods
Unit III, Lesson 1	5	AS 1.1 20 min.
		AS 1.2 20 min.
		AS 1.3 30 min.
		AS 1.4 30 min.
Unit III, Lesson 2	3	AS 2.1 30 min.
		AS 2.2 30 min.
		AS 2.3 30 min.
		AS 2.4 30 min.
Unit III, Lesson 3	3	AS 3.1 30 min.
Unit III, Lesson 4	5	AS 4.1 20 min.
Unit IV, Lesson 1	1	AS 1.1 20 min.
Unit IV, Lesson 2	2	AS 2.1 30 min.
Unit IV, Lesson 3	2	AS 3.1 30 min.

	Periods for Classroom Instruction/Activities	Length for Activity Sheets (AS)	
Unit IV, Lesson 4	3	AS 4.1	30 min.
		AS 4.2	20 min.
Unit IV, Lesson 5	2	No activity	
Unit IV, Lesson 6	2	No activity	
Unit IV, Lesson 7	3	AS 7.1	30 min.
Unit IV, Lesson 8	5	AS 8.1	1 class period
		AS 8.2	30 min.
Unit IV, Lesson 9	5	AS 9.1	1 class period
		AS 9.2	30 min.
Unit V, Lesson 1	3	AS 1.1	15 min.
		AS 1.2	1 class period
Unit V, Lesson 2	2	AS 2.1	30 min.
Unit V, Lesson 3	3	AS 3.1	1 class period
Unit VI, Lesson 1	2	No activity	
Unit VI, Lesson 2	2	No activity	
Unit VI, Lesson 3	2	AS 3.1	20 min.
Unit VI, Lesson 4	4	AS 4.1	1 class period
		AS 4.2	1 class period
Unit VI, Lesson 5	4	AS 5.1	30 min.
		AS 5.2	1 1/2 class periods
Unit VII, Lesson 1	2	AS 1.1	30 min.
Unit VII, Lesson 2	3	AS 2.1	30 min.
Unit VII, Lesson 3	2	No activity	
Unit VII, Lesson 4	6	AS 4.1	20 min.
		AS 4.2	1 class period
		AS 4.3	3 class periods
Unit VII, Lesson 5	2	AS 5.1	30 min.
Unit VIII, Lesson 1	2	AS 1.1	30 min.
Unit VIII, Lesson 2	3	AS 2.1	1 class period
Unit VIII, Lesson 3	2	AS 3.1	20 min.
Unit IX, Lesson 1	2	AS 1.1	30 min.

	Periods for Classroom Instruction/Activities	Length for Activity Sheets (AS)	
Unit IX, Lesson 2	2	AS 2.1	30 min.
		AS 2.2	30 min.
Unit IX, Lesson 3	12	AS 3.1	20 min.
		AS 3.2	1 class period
Unit IX, Lesson 4	3	AS 4.1	30 min.
Unit IX, Lesson 5	3	AS 5.1	15 min.
		AS 5.2	40 min.
Unit IX, Lesson 6	4	AS 6.1	15 min.
		AS 6.2	40 min.
		AS 6.3	20 min.
		AS 6.4	40 min.
Unit IX, Lesson 7	3	No activity	
Unit IX, Lesson 8	3	AS 8.1	20 min.
		AS 8.2	30 min.
		AS 8.3	30 min.

AGRIBUSINESS SALES, MARKETING, AND MANAGEMENT

Competency Profile

Directions: Evaluate the student by checking the appropriate number or letter to indicate the degree of competency. The rating for each task should reflect **employability readiness** rather than the grades given in class.

Rating Scale: **3 Mastered** - can work independently with no supervision
2 Requires Supervision - can perform job completely with limited supervision
1 Not Mastered - requires instruction and close supervision
N No Exposure - no experience or knowledge in this area

3	2	1	N	**A. Agriculture as an Industry**
				1. Explain the role of agriculture in today's economy
				2. Identify opportunities for employment in agribusiness sales, marketing, and management
				Other: ____________________
				____________________

3	2	1	N	**B. Economic Principles in Agribusiness**
				1. Describe how supply and demand interact to determine the price of agricultural commodities
				2. Determine the point of maximum net returns (profit) given a sample list of inputs and outputs and the prices of each
				3. Determine the per-unit fixed and variable costs of producing a given output
				4. Determine the most profitable amount of substitution for inputs and/or outputs in an agribusiness
				5. Identify the opportunity cost of choosing one economic alternative over another
				6. Identify the major markets for price discovery in the United States
				7. Explain how the government is involved in the economics of agriculture
				Other: ____________________
				____________________

3	2	1	N	**C. Financial Management**
				1. Explain how to manage financial resources
				2. Develop a budget
				3. Describe the sources of credit and credit guidelines
				4. Develop a savings and investment plan as part of a complete financial plan
				Other: ____________________
				____________________

3	2	1	N	**D. Personal Development**
				1. Describe how to develop a positive work attitude
				2. Describe how to develop positive workplace relationships
				3. Describe how to receive and give criticism
				4. Describe what is considered to be ethical behavior in the workplace
				5. Use goals to plan projects and solve problems
				6. Develop stress management techniques
				7. Develop a plan for finding a job
				8. Develop a resume and complete a job application
				9. Explain how to apply and interview for a job
				Other: ____________________
				____________________

3	2	1	N	**E. Communication Skills**
				1. Utilize verbal and nonverbal communication skills, as well as effective listening
				2. Use written communication skills in the sales process
				3. Describe the proper use of communications technology
				Other: ______________________________
				______________________________

3	2	1	N	**F. Preparing for a Sale**
				1. Differentiate between selling environments and the salesperson's role in each of these environments
				2. Identify different communication styles and use this information to improve the sales presentation technique
				3. Describe the factors that motivate a person to make purchases and how to identify these factors in an individual
				4. Describe how to obtain product, company, and industry knowledge and use it in a sales presentation
				5. Identify potential customers and the best method for approaching them
				Other: ______________________________
				______________________________

3	2	1	N	**G. Making a Sale**
				1. Demonstrate techniques for building rapport with customers
				2. Identify customer needs
				3. Recognize the steps and tools involved in constructing an effective sales presentation
				4. Demonstrate techniques for closing a sale
				5. Identify the activities the salesperson must do after the sales presentation to maintain a long-term relationship with the customer
				Other: ______________________________
				______________________________

3	2	1	N	**H. Promotional Tools**
				1. Describe the components and purpose of a promotional campaign
				2. Develop a print advertisement
				3. Develop a public relations campaign
				Other: ______________________________
				______________________________

3	2	1	N	**I. Entrepreneurship**
				1. Describe the basic concepts of a free market system
				2. Identify the forms and characteristics of business ownership
				3. Identify and evaluate business opportunities
				4. Prepare an income statement
				5. Prepare a balance sheet
				6. Summarize cash flow and project a statement of cash flows
				7. Describe how to obtain financing for a business
				8. Explain the importance of making business decisions
				Other: ______________________________
				______________________________

AGRIBUSINESS SALES, MARKETING, AND MANAGEMENT

Student Names															
															UNIT I - AGRICULTURE AS AN INDUSTRY
															1. Explain the role of agriculture in today's economy.
															2. Identify opportunities for employment in agribusiness sales, marketing, and management.
															UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS
															1. Describe how supply and demand interact to determine the price of agricultural commodities..
															2. Determine the point of maximum net returns (profit) given a sample list of inputs and outputs and the prices of each.
															UNIT III - FINANCIAL MANAGEMENT
															1. Explain how to manage financial resources.
															2. Develop a budget.
															3. Describe the sources of credit and credit guidelines.
															4. Develop a savings and investment plan as part of a complete financial plan.
															UNIT IV - PERSONAL DEVELOPMENT
															1. Describe how to develop a positive work attitude.
															2. Describe how to develop positive workplace relationships.
															3. Describe how to receive and give criticism.
															4. Describe what is considered to be ethical behavior in the workplace.
															5. Use goals to plan projects and solve problems.
															6. Develop stress management techniques.

Student Names															
															7. Develop a plan for finding a job.
															8. Develop a resume and complete a job application.
															9. Explain how to interview for a job.
															UNIT V - COMMUNICATION SKILLS
															1. Utilize verbal and nonverbal communication skills, as well as effective listening.
															2. Use written communication skills in the sales process.
															3. Describe the proper use of communica-tion technology.
															UNIT VI - PREPARING FOR A SALE
															1. Differentiate between selling environments and the salesperson's role in each of these environments.
															2. Identify different communication styles and use this information to improve the sales presentation technique.
															3. Describe the factors that motivate a person to make purchases and how to identify these factors in an individual.
															4. Describe how to obtain product, company, and industry knowledge and use it in a sales presentation.
															5. Identify potential customers and the best method for approaching them.
															UNIT VII - MAKING A SALE
															1. Demonstrate techniques for building rapport with customers.
															2. Identify customer needs.
															3. Recognize the steps and tools involved in constructing an effective sales presentation.
															4. Demonstrate techniques for closing a sale.

	Student Names														
5. Identify the activities the salesperson must do after the sales presentation to maintain a long-term relationship with the customer.															
UNIT VIII - PROMOTIONAL TOOLS															
1. Describe the components and purpose of a promotional campaign.															
2. Develop a print advertisement.															
3. Develop a public relations campaign.															
UNIT IX - ENTREPRENEURSHIP															
1. Describe the basic concepts of a free market system.															
2. Identify the forms and characteristics of business ownership.															
3. Identify and evaluate business opportunities.															
4. Prepare an income statement.															
5. Prepare a balance sheet.															
6. Summarize cash flow and project a statement of cash flows.															
7. Describe how to obtain financing for a business.															
8. Explain the importance of making business decisions.															

UNIT I - AGRICULTURE AS AN INDUSTRY

Lesson 1: Agriculture Today

Competency/Objective: Explain the role of agriculture in today's economy.

Study Questions

1. **What are the major sectors of agriculture in the United States?**
2. **How do the sectors fit together?**
3. **How does agriculture affect the economy of the United States?**
4. **How does American agriculture affect the international economy?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit I.
2. Transparency Masters
   a) TM 1.1: Agricultural Industry
   b) TM 1.2: Agricultural Employment in Missouri, 1990
3. Activity Sheet
   a) AS 1.1: The Agricultural Industry

UNIT I - AGRICULTURE AS AN INDUSTRY

Lesson 1: Agriculture Today

TEACHING PROCEDURES

A. Introduction

Agriculture has been, is now, and will always be an industry critical to the United States. Improved technology has made it possible for the nation to produce more and better products with fewer and fewer people. Because the United States is blessed with abundant resources and the ability to produce vast amounts of agricultural goods, the world looks to it as the leading source of food and fiber products. To achieve this high level of production, today's agricultural producers rely on agribusiness firms and their employees to meet their production needs. The thousands of agribusinesses in the United States provide the financing, processing, distribution, wholesale, and retail services needed to support the production of agricultural products. This lesson will discuss the major sectors of agriculture and explain how they fit together to form a diverse industry that is vital to the economies of both the United States and the world.

B. Motivation

Bring in a sample of soybeans or corn. Make three columns on the blackboard. Label the first column "Production Needs," the second column "Product Uses," and the third column "Consumers and Processors of Products." Ask the students to identify the production needs for growing soybeans or corn, their uses, and their consumers and processors. List the responses and then discuss the different sectors of agriculture and how they are linked to the information in the columns.

C. Assignment

D. Supervised Study

E. Discussion

1. Using AS 1.1, have students fill out the first two columns of the activity sheet by listing the different agricultural businesses in the community and then identifying the sector of the agricultural industry to which each business belongs. The class could be broken up into groups of three or four to fill out the activity sheet together.

   What are the major sectors of agriculture in the United States?

   a) Production
   b) Manufacturing
   c) Service
   d) Marketing

2. Discuss with students how the sectors of agriculture interact to support the production of agricultural goods. Refer to TM 1.1. Have students fill in the third column of AS 1.1 by describing the function of each business in connection to the other sectors.

   How do the sectors fit together?

   The production sector relies on the manufacturing and service sectors of the agricultural industry for the inputs for production and on the processing sector to utilize the outputs.

   a) Manufacturing - includes businesses that make such things as fertilizer and chemicals, feed, and machinery that are needed for production; producers who supply feed and breeding stock to other producers; and processing plants that transform the output of agricultural production into goods for the consumer

b) **Service** - includes credit agencies that provide financial support for production, insurance companies that protect producers against losses, and federal and state government agencies that provide price supports, conservation and planning services, and information on agricultural research to producers

c) **Marketing** - includes companies that transport raw and processed agricultural goods to wholesalers and retailers who sell those goods to other businesses or to consumers; also includes businesses engaged in the transport and sale of the goods made by the manufacturing sector for agricultural production

3. Ask the students to describe ways in which the agriculture industry is critical to the U.S. economy. Remind them that the agriculture industry includes the manufacturing of farm machinery and supplies and the processing and distribution of agricultural commodities and products that are made from them. Display TM 1.2.

How does agriculture affect the economy of the United States?

a) Agriculture generates a huge amount of revenue, more than any other industry, in the domestic and international markets.
b) The agricultural industry employs more people than any other industry in the United States.
c) The United States agricultural industry can produce, process, market, and distribute food at a lower price than any other nation in the world, leading to savings for consumers.
d) Demand due to expanding international markets for U.S. agricultural products creates better prices for products, generating more revenue for producers.
e) Trade stimulates producers to make the best use of resources, improving efficiency and reducing prices for consumers.
f) Trade balances established by the export of agricultural goods allow the importation of food products not widely produced in the United States, increasing the variety and lowering the price of food for consumers in the United States.
g) Trade balances influence the volume of non-food products imported.

4. Discuss with students how important the exportation of agricultural products is not only to the U.S. economy but also to the economies of other nations. Have students describe the effect of American agriculture on the international economy.

How does American agriculture affect the international economy?

a) Many countries rely on U.S. exports for food supplies.
b) Agricultural imports and exports make more products available to the people of each country, helping to increase the standard of living throughout the world.
c) Expanding markets through international trade helps all countries to improve the use of resources and increase economic output.
d) The U.S. agricultural industry benefits industries in other countries.
    1) U.S. agricultural producers, processors, manufacturers, and distributors buy machinery, equipment, and supplies from other countries.
    2) Petroleum products are imported to operate machinery and equipment.
e) Trade in international markets plays an important part in international diplomacy and foreign relations.

F. Other Activities

Break the class up into small groups of three or four students. Ask each group the following question: Should the United States feel obligated to produce enough food to supply the world's needs even if it means producing fewer products that are not necessary for life for citizens of this country? Give the students in each of the groups about 20 minutes to discuss the question and then let each group present their findings to the class. After the presentations, have an open class discussion.

G. Conclusion

The agricultural industry of the United States encompasses more than just production. It includes thousands of agribusinesses that support the production of foods and fibers. The agricultural industry plays a critical role in the economy of the United States and in the international economy.

H. Answers to Activity Sheet

AS 1.1

Answers will vary.

I. Answers to Evaluation

1. d
2. d
3. a
4. Production, manufacturing, service, marketing

5. Federal and state government agencies provide price supports, conservation planning services, and research to producers of agricultural products.

6. Answers should include any three of the following:

   - Agriculture generates more revenue than any other industry.
   - The agricultural industry employs more people than any other industry in the United States.
   - The U.S. agricultural industry can produce, process, market, and distribute food at a lower price than any other nation in the world, leading to savings for consumers.
   - Demand due to expanding international markets for U.S. agricultural products creates better prices for products, generating more revenue for producers.
   - Trade stimulates producers to make the best use of resources, improving efficiency and so reducing prices for consumers.
   - Trade balances established by the export of agricultural goods allow the importation of food products not widely produced in the United States, increasing the variety and lowering the price of food for consumers in the United States.
   - Trade balances influence the volume of non-food products imported.

7. Answers should include any three of the following:

   - Many countries rely on U.S. exports for food supplies.
   - Agricultural imports and exports make more products available to the people of each country, helping to increase the standard of living throughout the world.
   - Expanding markets through international trade helps all countries to improve the use of resources and increase economic output.
   - The U.S. agricultural industry benefits industries in other countries.
   - Trade in international markets plays an important part in international diplomacy and foreign relations.

UNIT I - AGRICULTURE AS AN INDUSTRY

Name____________________________

Lesson 1: Agriculture Today

Date____________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Retailers who sell products made from the output of the production sector are in what sector of agriculture?

   a. Production
   b. Service
   c. Manufacturing
   d. Marketing

2. Which of the following describes a function of the manufacturing sector of the agricultural industry?

   a. Provides insurance to protect the producer against losses incurred during production
   b. Sells the outputs of agricultural production to the consumer
   c. Transports agricultural goods to market for sale to consumers
   d. Makes items like fertilizer and chemicals, feed, and machinery for use by producers

3. How can expanding the trade of agricultural products to other countries affect American farmers?

   a. Expanding agricultural product markets to other countries helps farmers get a better price for their products.
   b. Expanding agricultural product markets to other countries causes farmers to get less money for their products.
   c. Expanding agricultural product markets to other countries has no effect on American farmers.
   d. Expanding agricultural product markets to other countries raises the costs of production.

Complete the following short answer questions.

4. Name the four major sectors of agriculture.

   a.

   b.

   c.

   d.

5. What inputs do government agencies provide for agricultural production?

6. What are three ways agricultural industries affect the U.S. economy?

a.

b.

c.

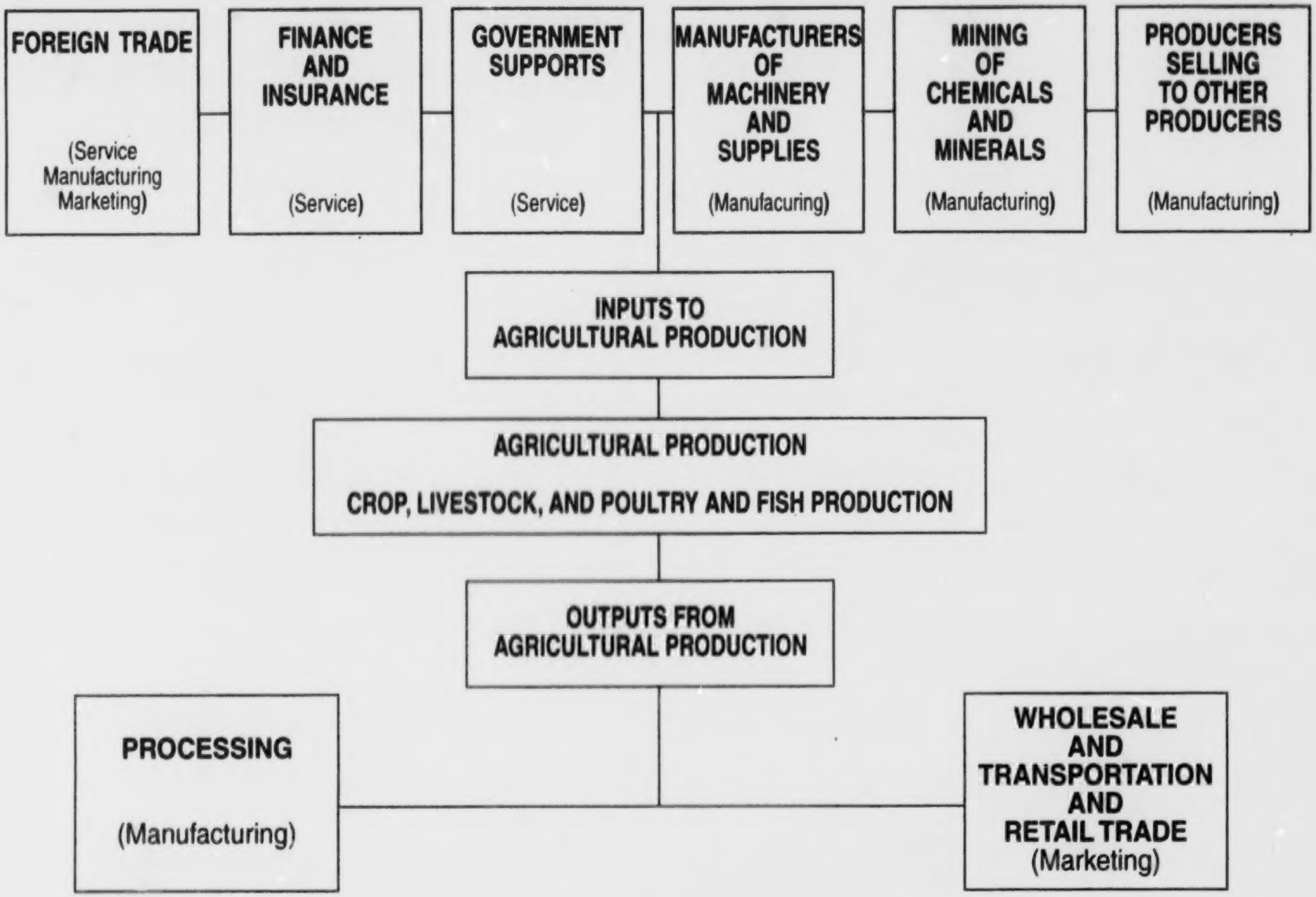
7. What are three ways that the trade in agricultural goods affects the international economy.

a.

b.

c.

Agricultural Industry



FOREIGN TRADE
(Service
Manufacturing
Marketing)

FINANCE AND INSURANCE
(Service)

GOVERNMENT SUPPORTS
(Service)

MANUFACTURERS OF MACHINERY AND SUPPLIES
(Manufacuring)

MINING OF CHEMICALS AND MINERALS
(Manufacturing)

PRODUCERS SELLING TO OTHER PRODUCERS
(Manufacturing)

INPUTS TO AGRICULTURAL PRODUCTION

AGRICULTURAL PRODUCTION

CROP, LIVESTOCK, AND POULTRY AND FISH PRODUCTION

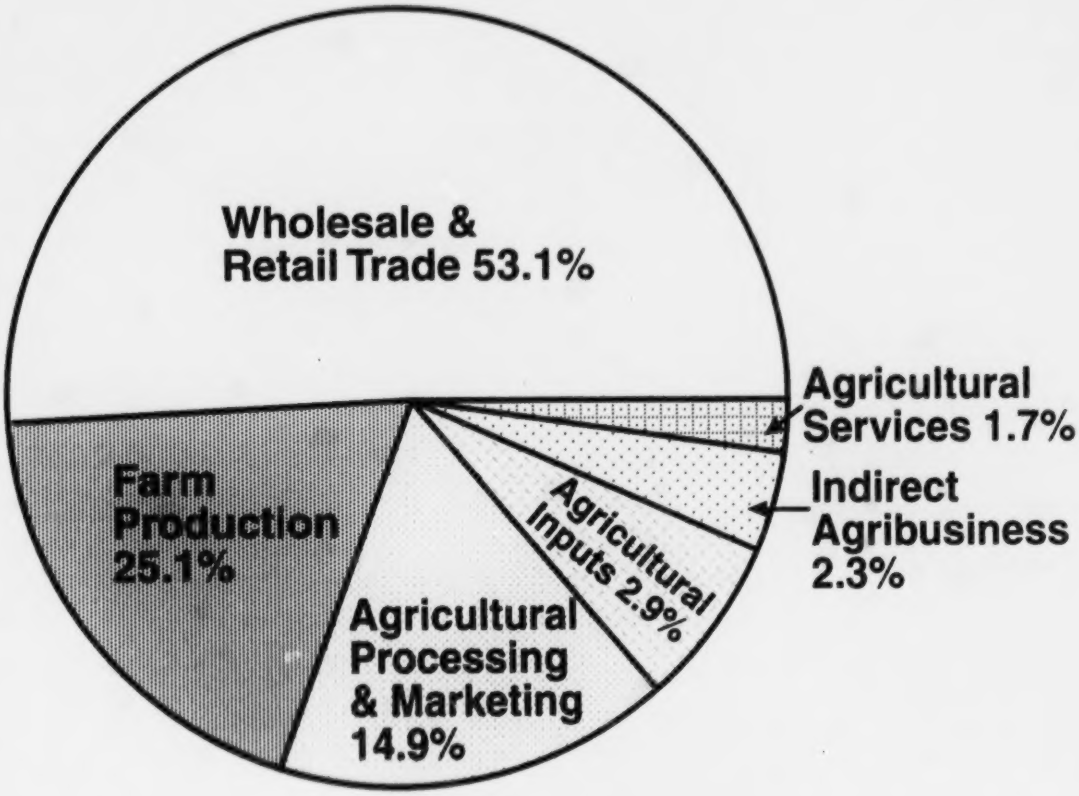
OUTPUTS FROM AGRICULTURAL PRODUCTION

PROCESSING
(Manufacturing)

WHOLESALE AND TRANSPORTATION AND RETAIL TRADE
(Marketing)

TM 1.1

Agricultural Employment in Missouri, 1990



Source: Economic Research Service

Lesson 1: Agriculture Today

Name______________________________

The Agricultural Industry

Objective: Identify the businesses that are included in the various agricultural sectors and the relationships between the sectors.

Identify businesses in your community involved in agriculture, their agricultural sectors, and their connection to other sectors in terms of their function.

Name of Community Agricultural Business	Sector of the Agricultural Industry	Relationship to Other Sectors
Ex. Farm supply store	Marketing	Sells needed inputs to the production sector

Name of Community Agricultural Business	Sector of the Agricultural Industry	Relationship to Other Sectors

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UNIT I - AGRICULTURE AS AN INDUSTRY

Lesson 2: Opportunities in Agribusiness Sales, Marketing, and Management

Competency/Objective: Identify opportunities for employment in agribusiness sales, marketing, and management.

Study Questions

1. **What is the history of agricultural employment?**
2. **What are the future trends for employment in agriculture?**
3. **What are some of the career opportunities in the United States in agribusiness sales, marketing, and management?**
4. **What are some of the career opportunities internationally in agribusiness sales, marketing, and management?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit I.
2. Transparency Master
    a) TM 2.1: Two Hundred Years of Agricultural Production
3. Activity Sheet
    a) AS 2.1: Career Research

Lesson 2: Opportunities in Agribusiness Sales, Marketing, and Management

TEACHING PROCEDURES

A. Review

Lesson 1 discussed how agricultural production, manufacturing, service, and marketing fit together to form the U.S. agricultural industry, which is an important source of food and fiber for the world. In this lesson, the history of employment in agribusiness and the current and future career opportunities in agribusiness sales, marketing, and management will be discussed.

B. Motivation

Emphasize to students that choosing a career is one of the most important decisions that they will make in their lives. Ask students what they think are important factors to consider when making career choices. Explain to them that knowing the educational needs, salary, location, and job availability of a particular career will help them make decisions. Point out that their choice of career will affect the rest of their lives. For example, discuss these figures from the Economic Policy Analysis web page (http//www.epinet.org/fids19.html, accessed on May 13,1997).

Educational Level	Average Hourly Wage (1995)
Less than high school	$8.16
High school diploma	$10.46
Some college	$11.64
College degree	$17.26
Advanced degree	$22.81

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss with students how the production of agricultural goods has changed over the past 200 years. Describe how agriculture has changed from primarily self-sustaining farms to the diverse agricultural industry of today. Discuss how changes in technology have made agricultural production a small but very important part of the agricultural industry. Refer to TM 2.1.

What is the history of agricultural employment?

a) In subsistence farming, farms were self-sustaining units for growing crops and raising livestock primarily to meet the needs of the farm families. Most of the farm tools and clothing were homemade.

b) Agribusiness began with farmers trading excess crops and livestock for things that they could not produce, such as salt and sugar.

c) The nineteenth century brought improved methods of farming (i.e., new tillage methods) and the beginning of modern agricultural technology.
    1) 1834 - McCormick reaper
    2) 1837 - John Deere steel plow

d) By the late nineteenth century, the foundation of the modern agricultural industry was in place as the producers of agricultural goods relied on manufacturers and suppliers for inputs and on other agribusinesses to process and sell their goods.
e) By the early twentieth century, the era of the self-sustaining farm was almost over. Technology and specialization were spreading at a rapid pace.
f) By mid-century, agricultural production had increased and greater benefits began to be realized, causing more reliance on agribusinesses.
g) Between 1950 and 1975, the agricultural industry developed more rapidly than ever before.
h) Today the U.S. agricultural industry is a diverse industry consisting of producers (only 2 percent of the population in 1995) and thousands of agribusinesses and their employees.

2. Discuss the present and future needs of agribusinesses for employees trained in various areas, including agricultural management, sciences, mechanics, supply and services, and production.

What are the future trends for employment in agriculture?

a) The need for employees to work on corporate farms has increased dramatically.
b) Trained employees are needed in agricultural manufacturing, processing, and marketing.
c) Employees trained in computer technology will be needed to operate new monitoring and control systems for production and other agribusinesses.
d) Individuals who are trained in the management and monitoring of pesticides, groundwater contamination, disposal of animal waste, and many other ecological concerns will be necessary to satisfy the growing concern for a safe and healthy environment.
e) Employees who have a background in nutrition and food science will be needed to address health issues in the production of food.

3. Discuss specific career opportunities in agricultural sales, marketing, and management. Have students choose careers that they might like to pursue. After they have completed AS 2.1, each of the students should present his or her findings to the class.

What are some of the career opportunities in the United States in agribusiness sales, marketing, and management?

a) Careers in sales and marketing, many of which involve wholesale and retail sales,
    1) May or may not require travel
    2) Vary in terms of the skills and education required, with some positions requiring only a high school diploma and no special knowledge or skills, and others requiring a university degree and a great deal of technical knowledge; may include on-the-job training for advancement
    3) Usually pay a straight salary for retail sales positions and a commission or salary plus commission for wholesale sales positions
    4) Require an outgoing personality, initiative, persistence, good communication skills, and a willingness to learn about the product or service being sold in order to become a better salesperson.
b) Careers in management, including farm equipment factories, feedlots, corporate farms, and businesses involved in retail and wholesale sales,
    1) Generally require a college degree or technical education beyond high school and a varied amount of experience in the field; may include on-the-job training for advancement
    2) Require the ability to direct, train, and work with people
c) Career titles
    1) Retail sales manager
    2) Retail salesperson
    3) Wholesale sales manager
    4) Wholesale salesperson
    5) Personnel manager

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        6) Plant manager
        7) Commodities trader
        8) Corporate farm manager

4. Discuss careers in international sales and marketing. Note that many of the U.S. businesses involved in the sale, marketing, processing, and manufacturing of agricultural goods do business in international markets and that trained agribusiness employees are needed for these jobs.

   What are some of the career opportunities internationally in agribusiness sales, marketing, and management?

   a) Career opportunities in agricultural export sales, international marketing, agribusiness management, distribution systems, and international product development and packaging
      1) Require specialized education and training, with an educational background that includes the study of a foreign language along with international finance, international trade, international law, or marketing
      2) Allow individuals in entry-level positions with an education in agriculture to obtain training for other positions in the international market
   b) Career descriptions in export sales
      1) Salesperson working directly for a processor or manufacturer
      2) Employee of an export brokerage firm

F. Other Activities

1. Have students visit some agricultural businesses in the community. Ask different people working in these businesses to talk to the students about the training and educational needs of their careers. Have them describe their responsibilities and the availability of jobs.

2. Have students with part-time jobs in agribusinesses talk about the different career opportunities at the businesses where they are employed.

G. Conclusion

Agricultural production in the United States has changed dramatically over the past 200 years, from subsistence farming, employing a large proportion of the population, to corporate farming, employing a small segment of the population to produce high yields. At the same time, the agricultural industry has shifted away from just production to include a wide variety of agribusinesses. A multitude of career opportunities are available in the thousands of agribusinesses that support agricultural production.

H. Answers to Activity Sheet

AS 2.1

Answers will vary.

I. Answers to Evaluation

1. c
2. d
3. a

4. Agribusiness began when farmers started trading excess crops for such things as sugar and salt.

5. Answers may include any three of the following.

   - The need for employees to work on corporate farms has increased dramatically.
   - Trained employees are needed in agricultural manufacturing, processing, and marketing.
   - Employees trained in computer technology will be needed to operate new monitoring and control systems for production and other agribusinesses.
   - Individuals who are trained in the management and monitoring of pesticides, groundwater contamination, disposal of animal waste, and many other ecological concerns will be necessary to satisfy the growing concern for a safe and healthy environment.
   - Employees who have a background in nutrition and food science will be needed to address health issues in the production of food.

6. A person interested in export sales might work directly for a processor or manufacturer as a salesperson operating in foreign markets. He or she might also find a job at an export brokerage firm.

UNIT I - AGRICULTURE AS AN INDUSTRY

Lesson 2: Opportunities in Agribusiness
Sales, Marketing, and Management

Name____________________________

Date____________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What did John Deere invent in 1837 that helped farmers increase production?

   a. Steam tractor
   b. McCormick reaper
   c. Steel plow
   d. Gasoline tractor

2. How much educational experience is necessary to obtain a job in agricultural management without the benefit of on-the-job training or experience?

   a. Less than a high school education
   b. High school diploma
   c. Some college experience
   d. College degree

3. In 1995, how many people were involved in production?

   a. 2 percent of the population
   b. 3 percent of the population
   c. 4 percent of the population
   d. 5 percent of the population

Complete the following short answer questions.

4. What activity by farmers in early America formed the basis of the agricultural industry?

5. What are three future trends for employment in agriculture?

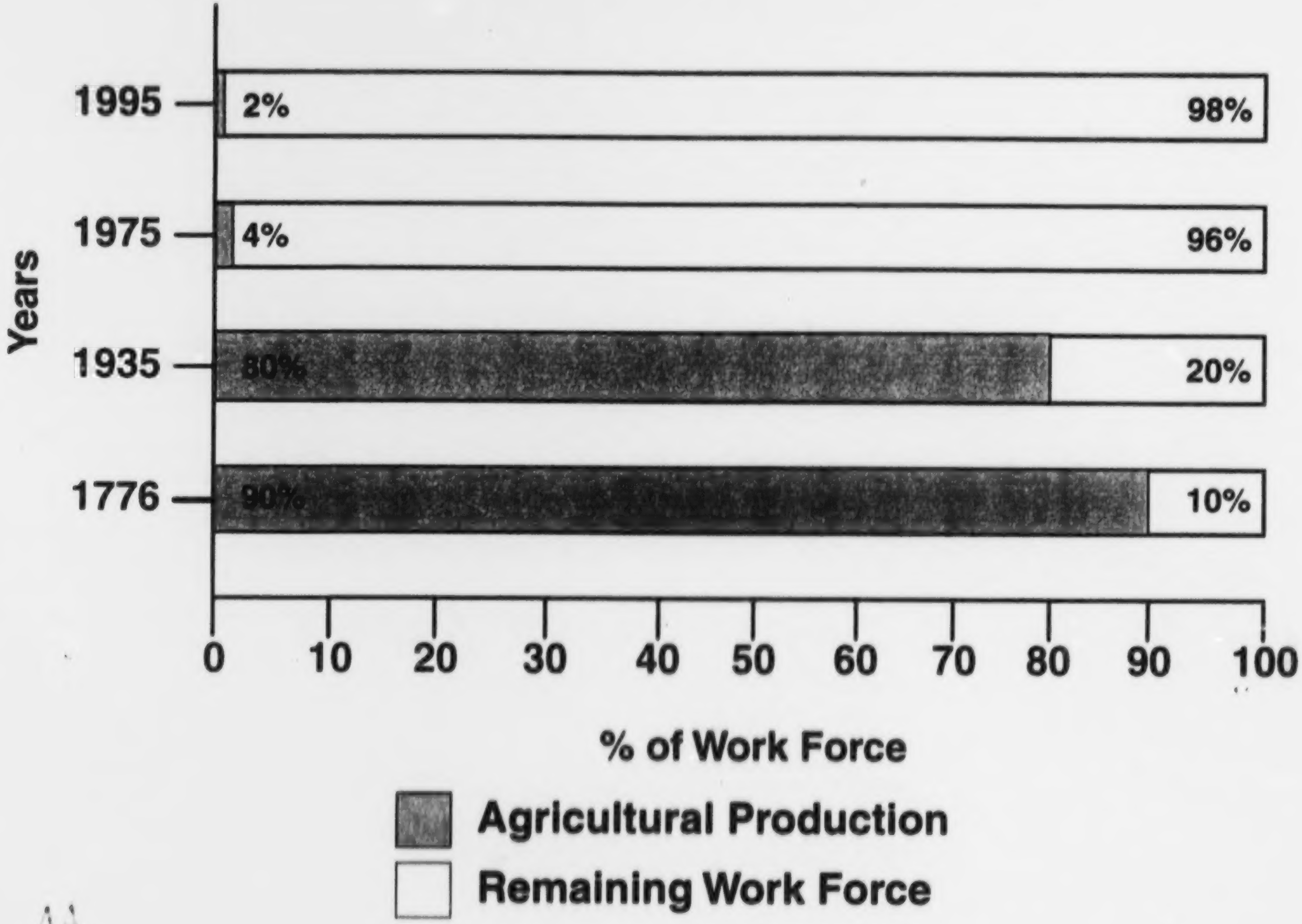
   a.

   b.

   c.

6. What job opportunities are available to a person interested in export sales?

Two Hundred Years of Agricultural Production



Lesson 2: Opportunities in Agribusiness Sales, Marketing, And Management

Name ______________________________

Career Research

Objective: Identify opportunities for employment in agribusiness sales, marketing, and management.

Pick a career that you are interested in and research to find the following information. You should interview people in your community with that particular career, if possible. You may also use reference materials such as the *Dictionary of Occupational Titles, Occupational Outlook Handbook*, and *Guide for Occupational Exploration*. They may be available at your library or counselor's office.

1. What are the educational requirements for the career you have chosen?

2. Where can this education be obtained?

3. What is the average salary of someone working in this career?

4. In what area of the country would you have to live if you choose this career?

5. What are the job responsibilities of someone working in this career?

6. What is the job market like for someone looking for work in this career?

Prepare a presentation on the career based on your research. Make sure to answer the following questions in your presentation:

- Why are you interested in this career?
- What are the educational requirements for the career, and where can this type of education be obtained?
- What is the average salary?
- Where are job opportunities available? Would you have to move to obtain this job?
- What are the job responsibilities?
- What is the job market outlook?
- Having completed your research, would you consider entering this career?

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 1: Supply and Demand

Competency/Objective: Describe how supply and demand interact to determine the price of agricultural commodities.

Study Questions

1. **Explain the difference between demand and quantity demanded.**
2. **Explain the difference between supply and quantity supplied.**
3. **What determines price?**
4. **Define the Law of Demand and show how it can be illustrated.**
5. **What factors may shift the demand curve?**
6. **Define the Law of Supply and show how it can be illustrated.**
7. **What factors may shift the supply curve?**
8. **What is the point of equilibrium?**
9. **What are the two basic types of goods demanded by consumers?**
10. **Define elasticity and the three types of elasticity.**
11. **How are demand price elasticity and supply price elasticity calculated?**
12. **What is the importance of determining demand or supply price elasticity?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit II.
2. Transparency Masters
    a) TM 1.1: What Determines Price?
    b) TM 1.2: Blank Graph
    c) TM 1.3: Shifts in Demand
    d) TM 1.4: Shifts in Supply
    e) TM 1.5: Demand Price Elasticity
    f) TM 1.6: Supply Price Elasticity
3. Activity Sheet
    a) AS 1.1: Supply and Demand Curves

d) If the price is too low:
    1) Demand will be greater than supply.
    2) A shortage will result.

e) Market clearing price is when supply is equal to demand.

9. Discuss with students the classification of items demanded by consumers.

What are the two basic types of goods demanded by consumers?

a) Luxury items - Goods and services that are generally considered nonessential to the survival or well-being of an individual.

b) Necessity items - Goods and services that are generally considered essential to the survival or well-being of an individual.

10. Discuss with students the elasticity of a market.

Define elasticity and the three types of elasticity.

a) Elasticity is the measure of how sensitive the market is to changes in price or quantity.

b) The gap fluctuates due to the ability of products to substitute for each other, the increase or decrease in supply or demand, income changes in the population that buys the product, or price increases or decreases demanded by buyers and sellers.

c) The three types of elasticity are inelastic, elastic, and unit elastic.
    1) Inelastic - Change in price is greater than the relative change in quantity.
    2) Elastic - Change in price is less than the relative change in quantity.
    3) Unit elastic - Change in price is equal to the change in quantity.

11. Discuss with students the elasticity of prices. Refer to TM 1.5 and TM 1.6. Demand-price elasticity is the amount of change in demand due to a certain change in price. Supply-price elasticity is the amount of change in supply due to a certain change in price.

How are demand price elasticity and supply price elasticity calculated?

a) Demand price elasticity =

$$\frac{\%\ \text{change in quantity demanded}}{\%\ \text{change in price}} \quad \text{or} \quad E_d = \frac{(Q_2 - Q_1) \div Q_1}{(P_2 - P_1) \div P_1}$$

b) Supply price elasticity =

$$\frac{\%\ \text{change in quantity supplied}}{\%\ \text{change in price}} \quad \text{or} \quad E_s = \frac{(Q_2 - Q_1) \div Q_1}{(P_2 - P_1) \div P_1}$$

12. Discuss with students how they would use demand and supply elasticities in making business decisions.

What is the importance of determining demand or supply price elasticity?

a) The demand price elasticity allows an agribusiness manager to estimate how much quantity demanded will change when price goes up or down.

b) The supply price elasticity allows an agribusiness manager to estimate how much production will change when the price goes up or down.

F. Other Activities

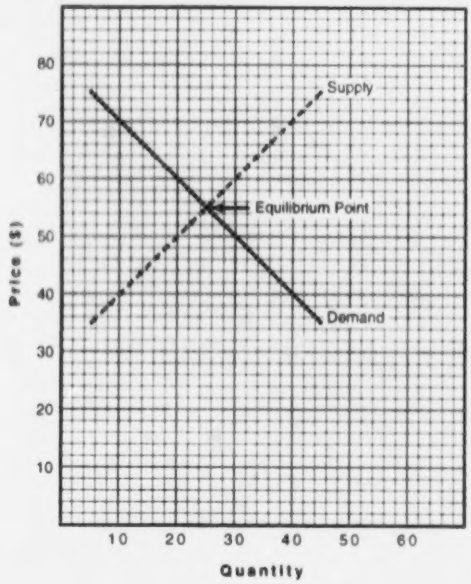
Obtain livestock and crop reports and other sources of information on current trends, and discuss supply and demand and how they affect price.

G. Conclusion

The point where the supply and demand curves cross is known as the point of equilibrium, which is the point of the market clearing price. This point is caused by the interaction of supply and demand, which is the amount sold or bought at a given price and at a given time and place. The items available on the market can be classified as either luxury or necessity items. The sensitivity of the market to change can be measured and is referred to as elasticity.

H. Answers to Activity Sheet

AS 1.1



I. Answers to Evaluation

1. d
2. d
3. c
4. b
5. a
6. c
7. c
8. b
9. a
10. a
11. b
12. c
13. d
14. a
15. c
16. a
17. c

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS Name ____________________

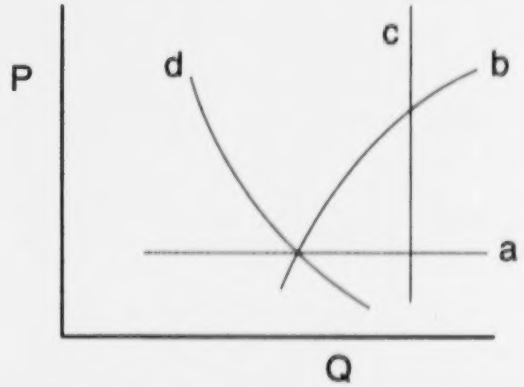
Lesson 1: Supply and Demand Date ____________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. In the diagram shown below, which line most closely represents a normal demand curve?

   a. a
   b. b
   c. c
   d. d



2. The price received for an agricultural commodity is determined by which of the following:

   a. Supply and unit elasticity
   b. Customer desires and performance
   c. Demand and family income
   d. Quantity produced and the quantity consumed or purchased

3. If both demand and supply increased equally for an agricultural product, what would be the results on the quantity of the product sold and the price received?

   a. The same quantity will be sold at the same price.
   b. An increased quantity will be sold at a lower price.
   c. An increased quantity will be sold at the same price.
   d. An increased quantity will be sold at a higher price.

4. The higher the price of milk, all other things being equal, the quantity consumed:

   a. Will increase.
   b. Will decrease.
   c. Will not change.
   d. Cannot be predicted from information given.

5. When the change in price is greater than the relative change in quantity produced, an agricultural commodity is said to be:

   a. Inelastic
   b. Elastic
   c. Unitary elastic
   d. Necessity

6. Successful advertising increases demand, thus the demand curve for the product advertised would be:

   a. Unchanged, but more would be sold at a lower price.
   b. Unchanged, but less would be sold at a higher price.
   c. Shifted to the right.
   d. Shifted to the left.

7. An increase in the supply of an agricultural commodity due to government programs results in a shift of the supply curve:

   a. Unchanged, but more would be sold at a lower price.
   b. Unchanged, but less would be sold at a higher price.
   c. Shifted to the right.
   d. Shifted to the left.

8. The amount of an agricultural product available for sale at different prices at a given place and time is called:

   a. Demand.
   b. Supply.
   c. Market.
   d. Utility.

9. Relative to demand, most basic agricultural products tend to be:

   a. Inelastic.
   b. Elastic.
   c. Unitary.
   d. None of the above.

10. What happens to the equilibrium price of a commodity when the supply increases and the demand increases equally?

   a. It stays the same.
   b. It becomes lower.
   c. It becomes higher.
   d. There is not sufficient information available to predict.

11. ________________ is how responsive the amount of an agricultural product produced or consumed would be to a change in price.

   a. Price
   b. Elasticity
   c. Consumption
   d. Supply

12. As price of an agricultural product increases, the supply:

   a. Decreases.
   b. Equalizes.
   c. Increases.
   d. Remains unchanged.

13. _______________ is a set of various prices and corresponding quantities of a particular agricultural commodity that would be purchased at each price.

a. A supply schedule
b. An elasticity schedule
c. A quantity schedule
d. A demand schedule

14. The amount of a good or service that would be purchased at different prices at a specific time and place is called:

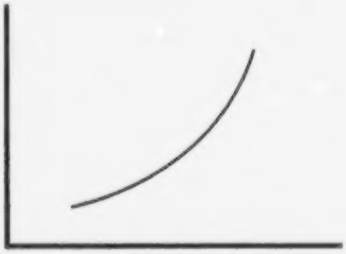
a. Demand
b. Supply
c. Market
d. Utility

15. The equilibrium price of an agricultural product is the point where:

a. Demand and price are constant.
b. Production is stable at a given price.
c. Production (supply) is equal to consumption (demand).
d. Selling price equals purchasing price.

16. The diagram shown below represents which of the following curves?

a. A supply curve
b. An equilibrium curve
c. A demand curve
d. A unit elasticity curve

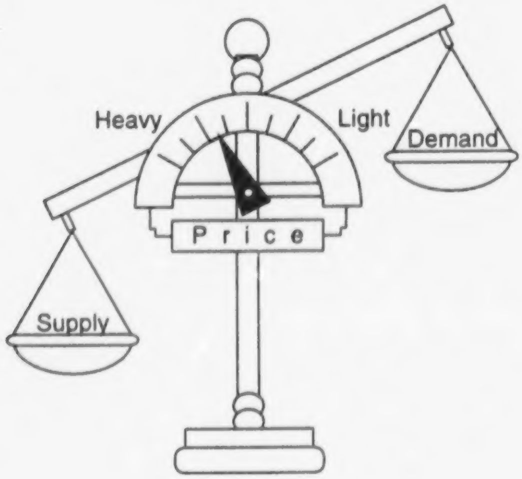


17. The equilibrium price of an agricultural commodity, at a particular point in time, can be determined by using:

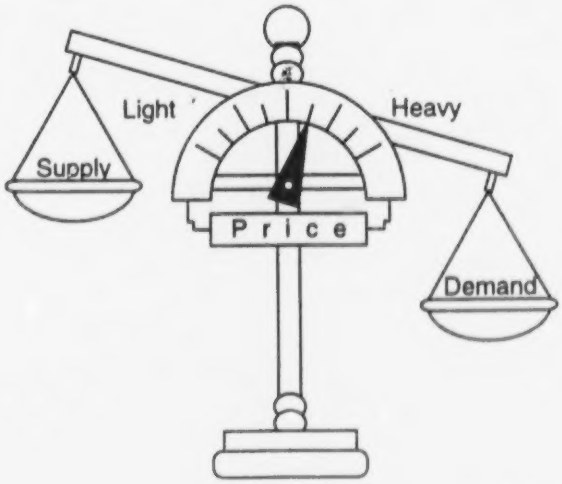
a. The demand schedule.
b. The supply schedule.
c. Both the supply and the demand curve.
d. Both the demand schedule and the demand curve.

What Determines Price?

Price is the interaction of the forces of supply and demand.

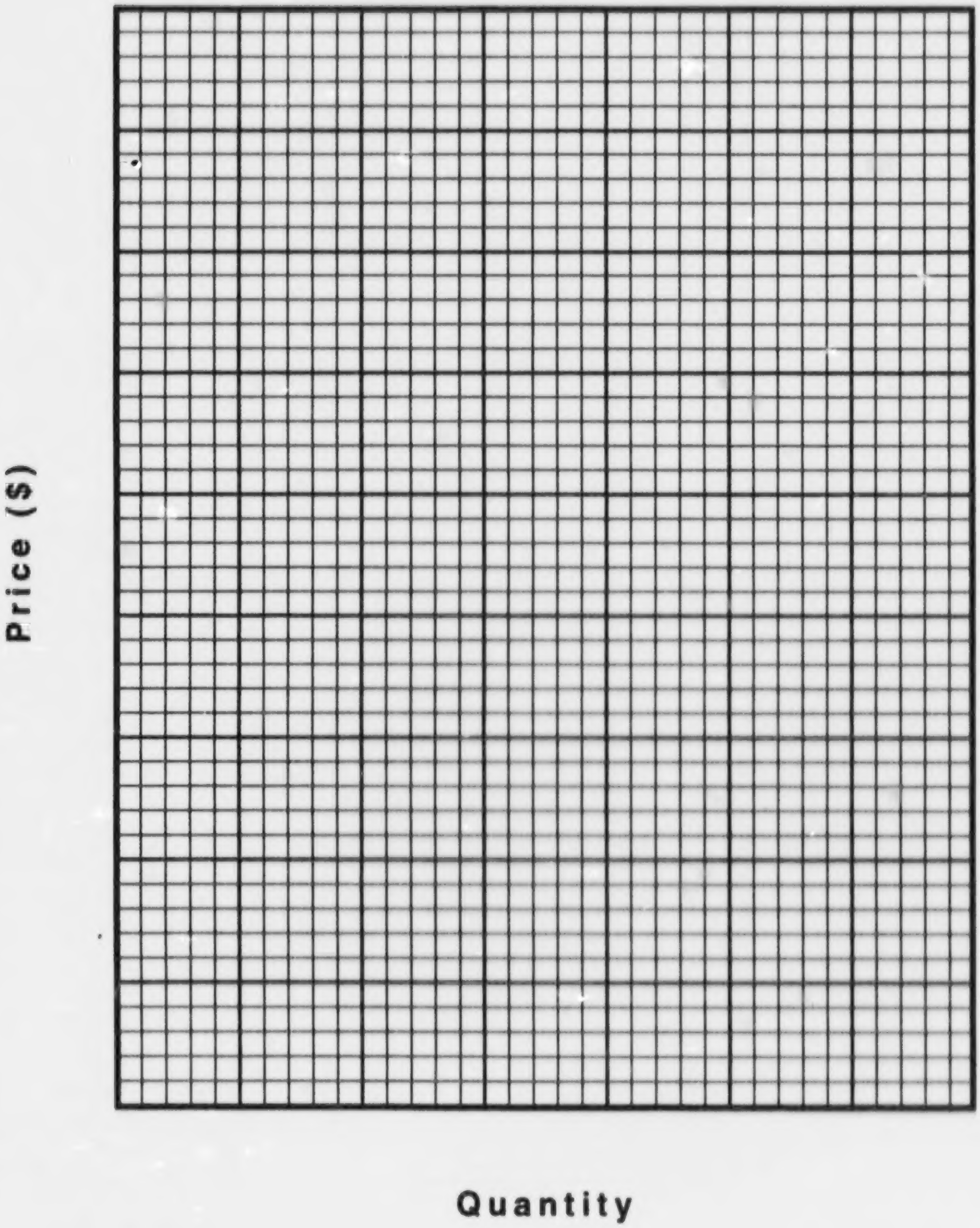

Heavy
Light
Demand
Price
Supply

When supply is heavy or demand is light, the price goes down.
When demand is heavy or supply is light, the price goes up.

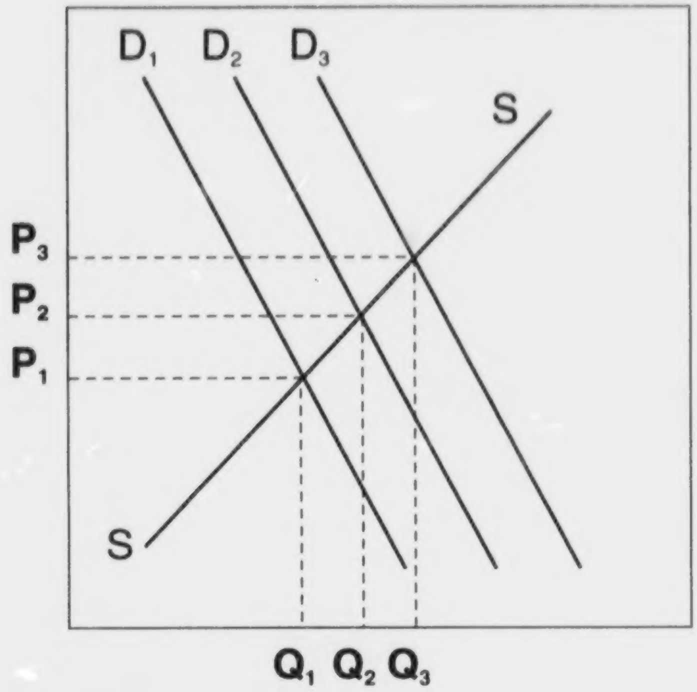

Light
Heavy
Supply
Price
Demand

TM 1.2

Blank Graph



Shifts in Demand

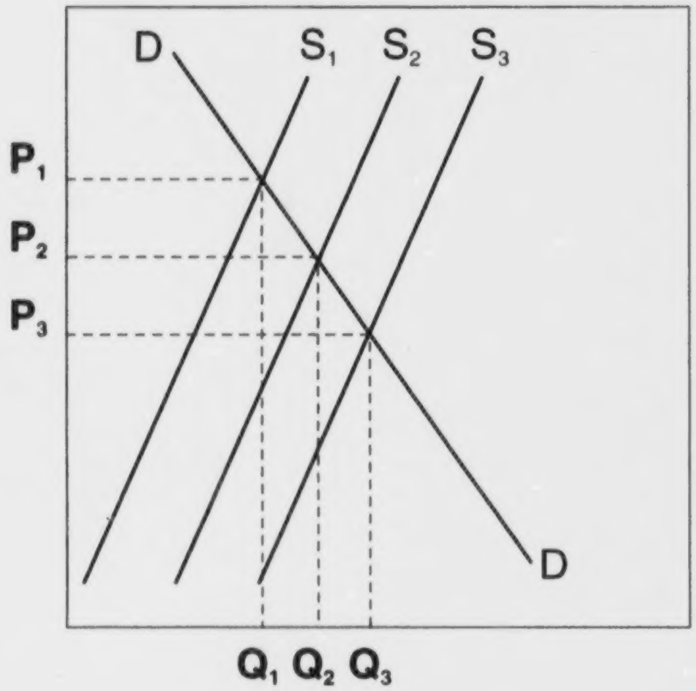


1) If the initial demand for barbed wire is D_2, the quantity demanded would be Q_2, and price would be P_2.

2) If demand shifted to D_3, quantity demanded equals Q_3, and price equals P_3.

3) If demand shifts to D_1, quantity demanded equals Q_1, and price equals P_1.

Shifts in Supply

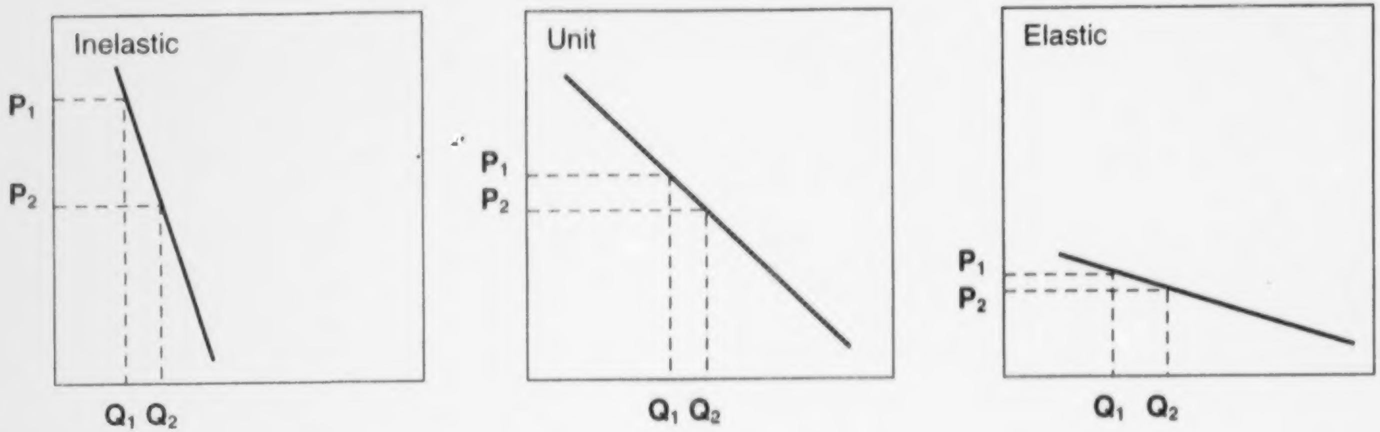


1) If the initial supply for roller bearings is S_2, the quantity supplied would be Q_2, and price would be P_2.

2) If supply shifts to S_1, quantity supplied equals Q_1, and price equals P_1.

3) If supply shifts to S_3, quantity supplied equals Q_3, and price equals P_3.

Demand Price Elasticity



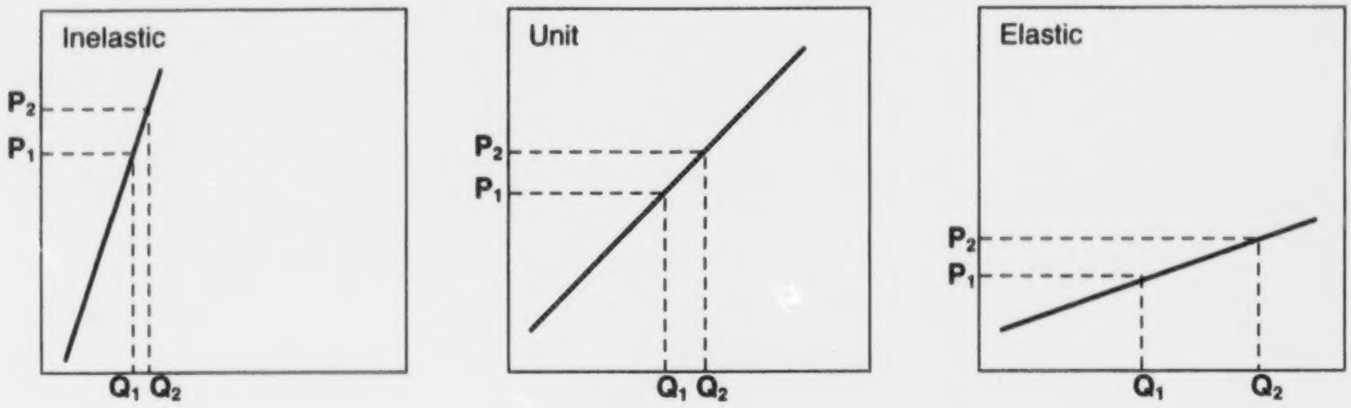
Inelastic - Change in price is **greater** than the relative change in quantity purchased.

Unit - Change in price is **equal** to the relative change in quantity purchased.

Elastic - Change in price is **less** than the relative change in quantity purchased.

TM 1.5

Supply Price Elasticity



Inelastic	-	Change in price is **greater** than the relative change in quantity provided.
Unit	-	Change in price is **equal** to the relative change in quantity provided.
Elastic	-	Change in price is **less** than the relative change in quantity provided.

TM 1.6

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS AS 1.1

Lesson 1: Supply and Demand Name ____________________

Supply and Demand Curves

Objective: Illustrate supply, demand, and the equilibrium point on a graph.

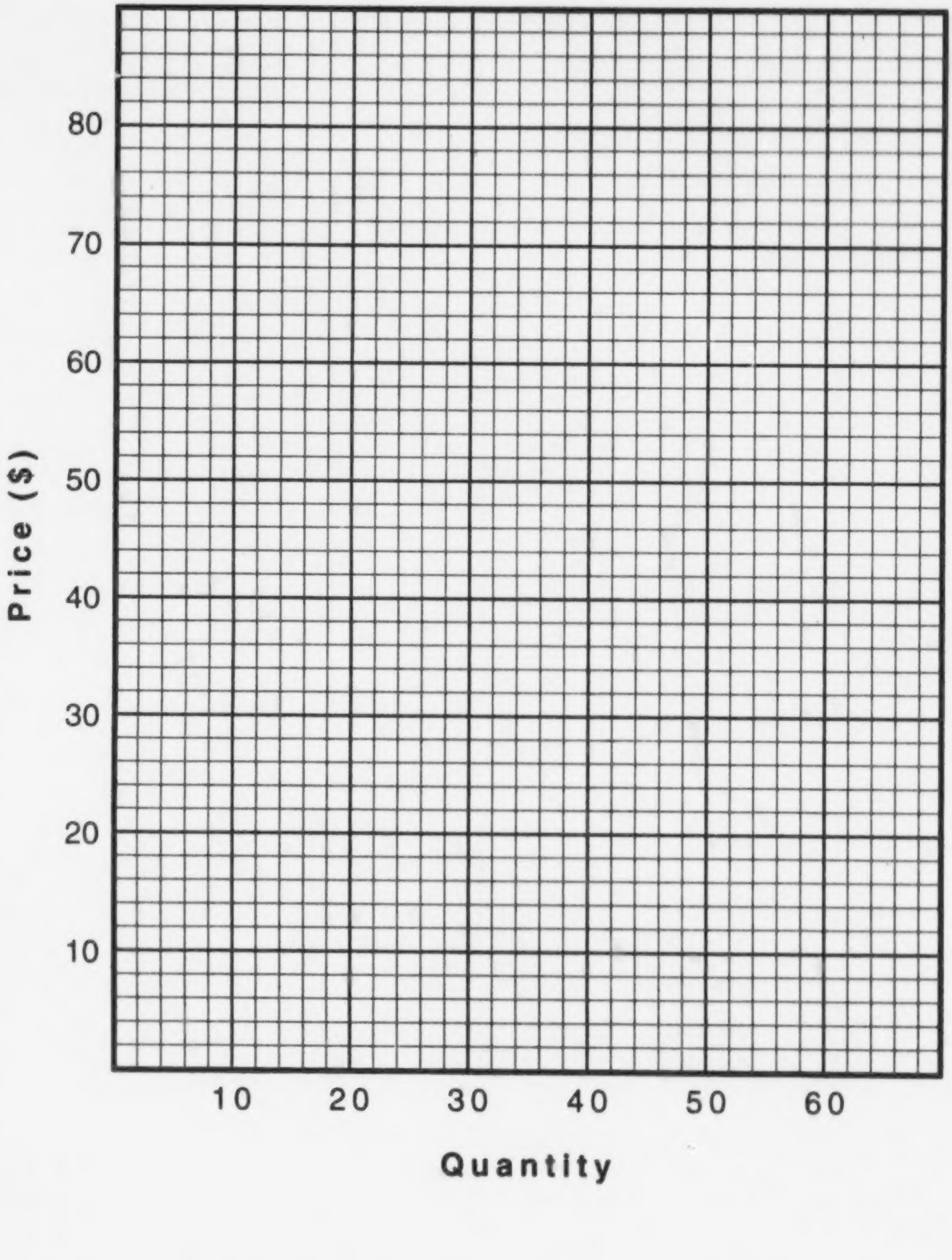
Graph the supply and demand curves on the blank graph on the back of this sheet. Label each curve and the equilibrium point.

Supply of Firewood

Price/Cord	Cords Offered for Sale
$75	45
$65	35
$55	25
$45	15
$35	5

Demand for Firewood

Price/Cord	Cords Purchased
$75	5
$65	15
$55	25
$45	35
$35	45



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UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 2: The Principle of Diminishing Returns

Competency/Objective: Determine the point of maximum net returns (profit) given a sample list of inputs and outputs and the prices of each.

Study Questions

1. **Define the following terms: total product (TP), marginal product (MP), and average product (AP).**
2. **What is the relationship between total product (TP), marginal product (MP), and average product (AP)?**
3. **What is meant by diminishing physical returns?**
4. **What is meant by diminishing economic returns?**
5. **At what point is maximum profit reached?**
6. **What is the difference between the point of maximum production and the point of maximum profit?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit II.
2. Transparency Masters
    - a) TM 2.1: Production Function
    - b) TM 2.2: Maximizing Profits in Manufacturing
    - c) TM 2.3: Blank Graph
    - d) TM 2.4: Maximizing Profits in Lawn Care Service
    - e) TM 2.5: Maximizing Profits in a Swine Production Facility
3. Activity Sheets
    - a) AS 2.1: Maximizing Profits in Manufacturing
    - b) AS 2.2: Maximizing Profits in Lawn Care Service
    - c) AS 2.3: Maximizing Profits in a Swine Production Facility

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 2: The Principle of Diminishing Returns

TEACHING PROCEDURES

A. Introduction

Lesson 1 discussed the differences between demand and quantity demanded and between supply and quantity supplied. Demand for a product or commodity is the amount that buyers are willing and able to purchase at different prices at a given time and place. Quantity demanded is how much buyers are willing and able to buy, at each specific price. Supply is the amount of product or commodity that producers are willing and able to produce at different prices at a given time and place. Quantity supplied is how much suppliers are willing and able to provide at each specific price. Lesson 2 is about diminishing returns. The principle of diminishing returns is an important economic concept. It states that at some point in time the marginal product decreases with each additional unit of input.

B. Motivation

Illustrate the principle of diminishing returns by using the example of a student who is hungry for hamburgers. Draw charts or graphs to show how much hunger is satisfied with each hamburger. Ask students the following questions.

1. How many hamburgers can you eat?
2. How much satisfaction would you get from the first hamburger?
3. Is the second hamburger as good as the first?
4. How many hamburgers will it take to give you 100 percent satisfaction?
5. What happens if you continue to eat after 100 percent satisfaction?

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss with students the definitions of total product (TP), marginal product (MP), and average product (AP).

   Define the following terms: total product (TP), marginal product (MP), and average product (AP).

   a) Total product (TP) - total output or yield
   b) Marginal product (MP) - change in output resulting from each additional unit of input
   c) Average product (AP) - total amount of output produced divided by the number of units of input

2. Discuss how total product (TP), marginal product (MP), and average product (AP) relate to each other. Discuss the production function using TM 2.1.

What is the relationship between total product (TP), marginal product (MP), and average product (AP)?

a) As TP increases at an increasing rate, MP and AP also increase, but AP increase more slowly than MP.
b) As TP increases, first MP begins to decrease, then AP begins to decrease.
c) When MP and AP cross, the TP begins to increase at a decreasing rate.
d) When TP is at its maximum level, MP equals zero, and AP is still positive.
e) Once MP becomes negative, TP begins to decrease.

3. Ask students to discuss possible meanings of the principle of diminishing returns. Explain how the amount of satisfaction obtained from eating hamburgers is a good example of diminishing returns. Then, guide the students as they work through examples as a group. Remind students they are looking at only one variable in the examples, but diminishing returns often involve several variables. Work through AS 2.1 (TM 2.2) with students. Have them graph TP, AP, and MP on the blank graph provided (use TM 2.3). Compare the completed graph with the production function on TM 2.1. For more practice, do AS 2.2 (TM 2.4) and AS 2.3 (TM 2.5).

What is meant by diminishing physical returns?

a) The principle of diminishing physical returns states that at some point in time, the marginal product decreases with each additional unit of input.
b) Examining diminishing physical returns requires calculating marginal input, marginal product, and average product.
    1) Calculate the marginal input (i.e., the difference between the initial amount and the next level of input).
    2) Calculate the marginal product (MP) for each level of production (i.e., the difference between the initial amount of total product (TP) and the next level of total product).
    3) Calculate the average product (AP) for each level of production (i.e., the total product divided by the total number of units of input).

4. Discuss the meaning of the principle of diminishing returns. Explain the difference between marginal input cost (MIC) and marginal revenue product (MRP). Using AS 2.3 and 2.4, have students graph the total revenue (TR), MIC, and MRP curves.

What is meant by diminishing economic returns?

a) The principle of diminishing economic returns states that beyond some point, marginal economic returns decrease with each additional unit of input.
b) Determining the most profitable level of production requires calculating total cost, marginal input cost, total revenue, and marginal revenue product.
    1) Calculate total cost (TC) for each level of input (i.e., units of input multiplied by cost per unit).
    2) Calculate marginal input cost (MIC) for each level.

$$MIC = \frac{\text{change in cost (\$)}}{\text{change in input}}$$

    3) Calculate total revenue (TR) for each level of production (i.e., the units of output multiplied by the price per unit).
    4) Calculate marginal revenue product (MRP) for each level.

$$MRP = \frac{\text{change in revenue}}{\text{change in input (marginal input)}}$$

5. Discuss the point at which maximum profit is reached. Use the completed activity sheets to demonstrate the point of maximum profit.

   At what point is maximum profit reached?

   Maximum profit occurs when net economic returns are at their greatest point (MIC = MRP).

6. Ask students to discuss the difference between maximum production and maximum profit. The completed graph from either AS 2.3 or 2.4 may be used to demonstrate the difference.

   What is the difference between the point of maximum production and the point of maximum profit?

   a) Maximum production is when production is at its highest possible level.
   b) Maximum profit is when net economic returns are at their greatest point (MIC = MRP).
   c) Maximum profit always occurs at a level of production that is lower than maximum production.

F. Other Activities

Discuss real-life examples of diminishing returns (e.g., studying for a test, eating a favorite food, staying out late with friends, fertilizing crops).

G. Conclusion

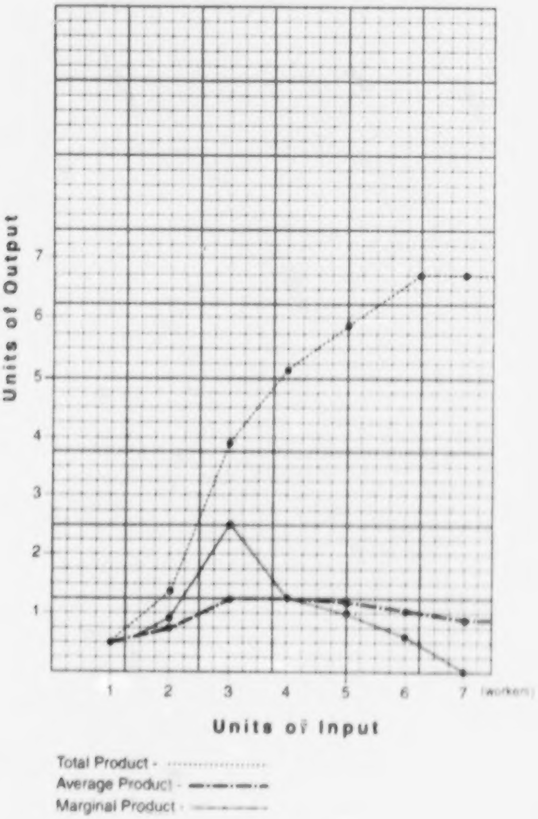
After a certain point, the economic returns for each successive unit of a variable resource added tend to decline. However, one should continue adding inputs as long as MIC is less than MRP. In order to receive maximum profit, expand production until MIC = MRP.

H. Answers to Activity Sheets

Answers to AS 2.1

No. of Workers	No. of Hog Feeders/Day	MI	AP	MP	TR	MRP	TC	MIC
1	.5	XX	.5	XX	50	XX	80	XX
2	1.4	1	.7	.9	140	115	160	80
3	3.9	1	1.3	2.5	390	250	240	80
4	5.2	1	1.3	1.3	520	130	320	80
5	6.2	1	1.2	1.0	620	100	400	80
6	6.8	1	1.1	.6	680	60	480	80
7	6.8	1	.9	0	680	0	560	80

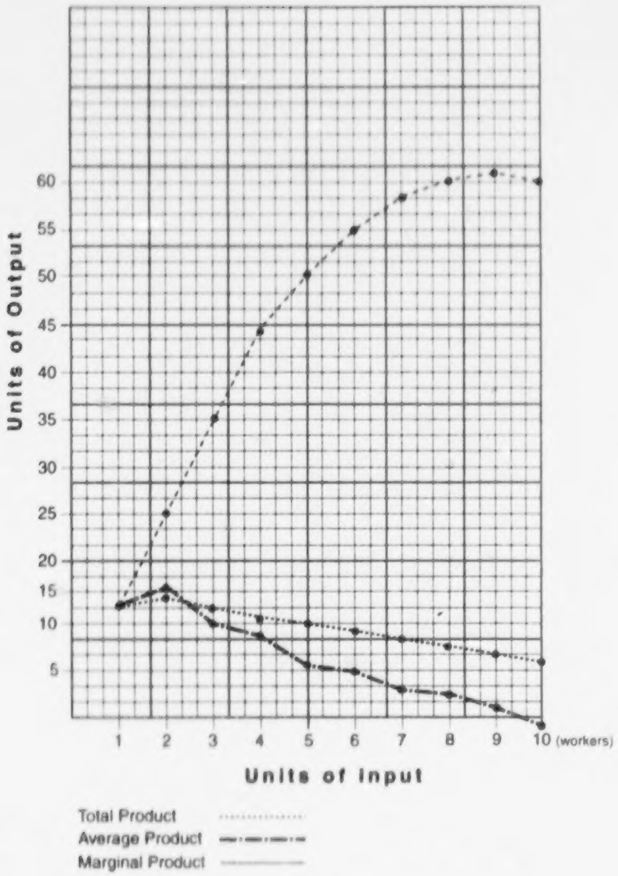
How many workers are needed? 5 workers (MRP > MIC)



Answers to AS 2.2

No. of Workers	No. of Lawns per Week (TP)	MI	AP	MP	TR	MRP	TC	MIC
1	12	1	12	12	360	XX	100	XX
2	25	1	12.5	13	750	390	200	100
3	35	1	11.6	10	1,050	300	300	100
4	44	1	11	9	1,320	270	400	100
5	50	1	10	6	1,500	180	500	100
6	55	1	9.2	5	1,650	150	600	100
7	58	1	8.3	3	1,740	90	700	100
8	60	1	7.5	2	1,800	60	800	100
9	61	1	6.8	1	1,830	30	900	100
10	60	1	6	-1	1,800	-30	1000	100

How many workers should Chris hire? 6 workers
How many lawns should she service? 55 lawns



Answers to AS 2.3

Weight of Hogs (TP)	AP	Lbs. of Feed Fed	MI	MP	TR	MRP	TC	MIC
210#	XX	650	XX	XX	94.50	XXX	58.50	XXX
220#	.32	694	44	10	99.00	4.50	62.46	3.96
230#	.31	739	45	10	103.50	4.50	66.51	4.05
240#	.31	785	46	10	108.00	4.50	70.65	4.14
250#	.30	832	47	10	112.50	4.50	74.88	4.23
260#	.30	881	49	10	117.00	4.50	79.29	4.41
270#	.29	932	51	10	121.50	4.50	83.88	4.59
280#	.28	984	52	10	126.00	4.50	88.56	4.68
290#	.28	1037	53	10	130.50	4.50	93.33	4.77

At what weight should hogs be marketed? 260 lbs (MRP > MIC)

I. Answers to Evaluation

1.

Irrigation	Fertilizer	MI	MIC	BUS./ACRE (TP)	MP	MRP
YES	0	XXX	XXX	102	XXX	XXX
YES	1	1	7.20	122	20	40
YES	2	1	7.20	137	15	30
YES	3	1	7.20	146	9	18
YES	4	1	7.20	152	6	12
NO	0	XXX	XXX	85	XXX	XXX
NO	1	1	7.20	97	12	24
NO	2	1	7.20	105	8	16
NO	3	1	7.20	109	4	8
NO	4	1	7.20	110	1	2

2. b
3. d
4. d
5. d
6. b

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UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS Name ______________________

Lesson 2: The Principle of Diminishing Returns Date ______________________

EVALUATION

Using the following information, calculate the MI, MIC, MP, and MRP for each of the test plots. These numbers will then be used to answer the following questions.

1. The ABC Fertilizer Company has decided to run a fertilizer test on a new product it has developed. The company's research field will be used for the test. The field is divided into ten equal-size test plots. Five plots have been irrigated, and five have not. The researchers applied different amounts of fertilizer to each of the test plots. The company plans to sell the corn produced in the plots for about $2.00 per bushel. The fertilizer cost is $7.20 per unit.

Irrigated	Fertilizer	Marginal Input Cost	Marginal Input	Bus./Acre (TP)	Marginal Product	Marginal Revenue
Yes	0	XXX	XXX	102	XXX	XXX
Yes	1			122		
Yes	2			137		
Yes	3			146		
Yes	4			152		
No	0	XXX	XXX	85		
No	1			97		
No	2			105		
No	3			109		
No	4			110		

Circle the letter that corresponds to the best answer.

2. If fertilizer costs 18¢ per pound, what is the marginal input cost of one unit?

   a. 18¢ times yield
   b. 18¢ times 40 pounds
   c. 18¢ times change in yield
   d. It is different for irrigated and non-irrigated corn.

3. If the expected corn price is $2 per bushel, what is the most profitable level of fertilization for irrigated corn?

   a. 1 unit
   b. 2 units
   c. 3 units
   d. 4 units

4. If the expected price of corn is $2 per bushel, what is the most profitable level of fertilization for non-irrigated corn?

   a. 0 units
   b. 1 unit
   c. 2 units
   d. 3 units

5. Which of the following items would tend to increase the profit-maximizing level of fertilizer?

   a. Lower fertilizer price
   b. Higher than expected corn price
   c. Irrigating
   d. All of the above

6. If a producer plans to produce corn with an irrigation cost of $50 per acre, which of the following should the company recommend to the producer?

   a. Irrigated corn with 3 units of fertilizer
   b. Irrigated corn with 4 units of fertilizer
   c. Non-irrigated corn with 3 units of fertilizer
   d. Non-irrigated corn with 4 units of fertilizer

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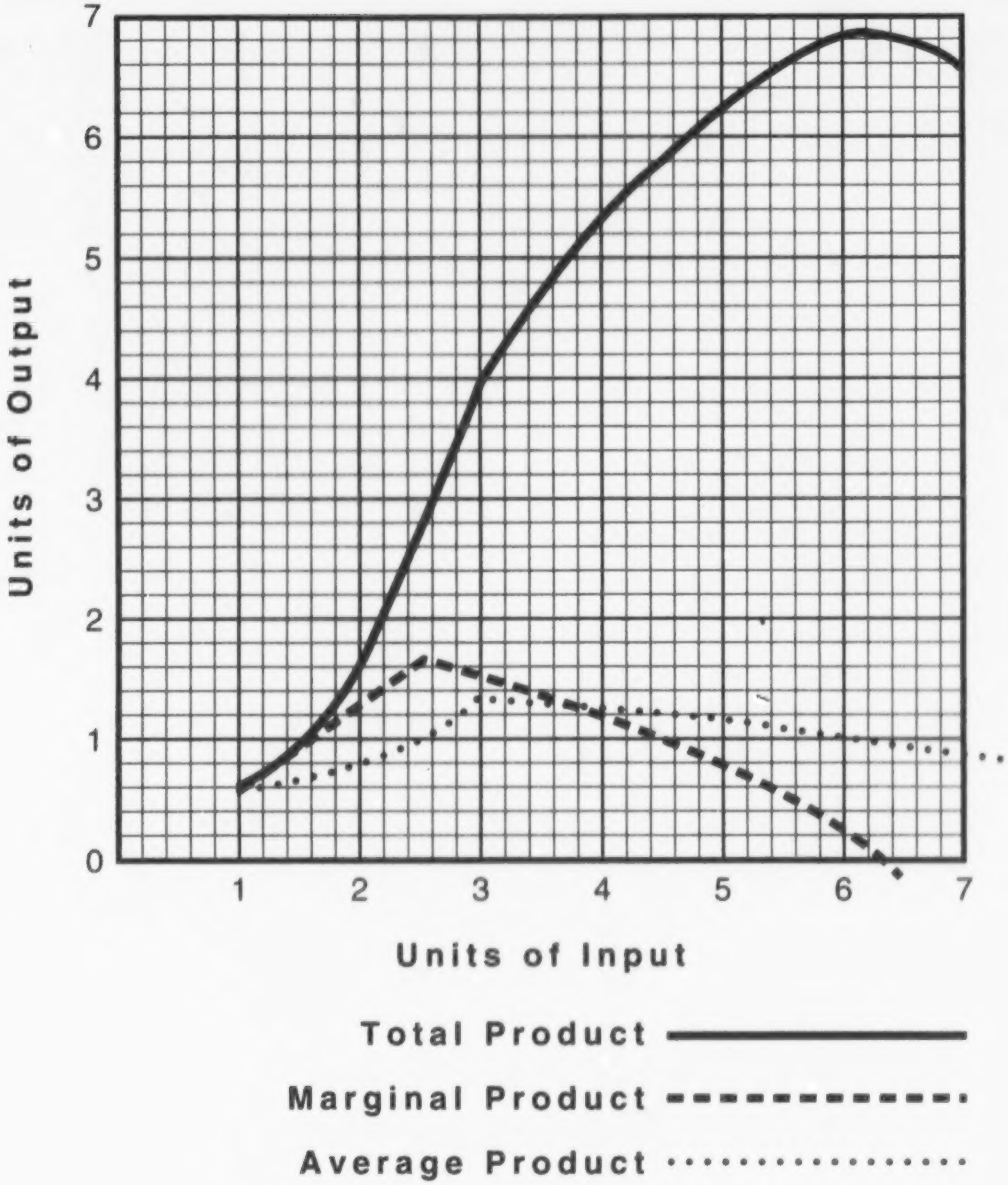
TM 2.1

Production Function

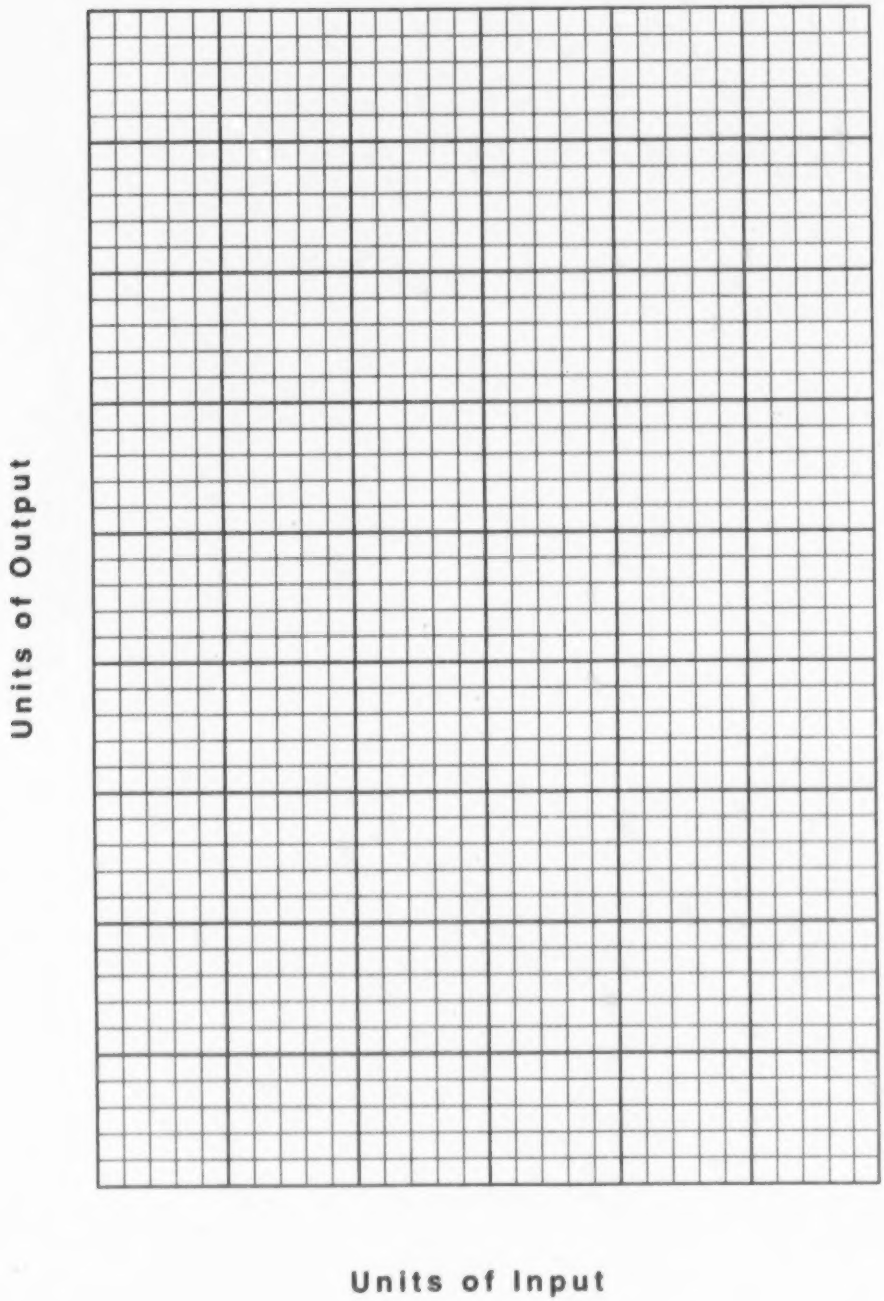


Maximizing Profits in Manufacturing

No. of Workers	No. of Hog Feeders/ Day	MI	AP	MP	TR	MRP	TC	MIC
1	.5		XX		XX		XX	XX
2	1.4							
3	3.9							
4	5.2							
5	6.2							
6	6.8							
7	6.8							

How many workers are needed?____________________

Blank Graph



Maximizing Profits in Lawn Care Service

No. of Workers	No. of Lawns per Week (TP)	MI	AP	MP	TR	MRP	TC	MIC
1	12	XX		XX		XX	XX	
2	25							
3	35							
4	44							
5	50							
6	55							
7	58							
8	60							
9	61							
10	60							

How many workers should Chris hire?______________________________

How many lawns should she service?______________________________

Maximizing Profits in a Swine Production Facility

Weight of Hogs (TP)	AP	Lbs. of Feed Fed	MI	MP	TR	MRP	TC	MIC
180#	XX	*650	XX	XX	81	XXX	58.50	XX
190#		694						
200#		739						
210#		785						
220#		832						
230#		881						
240#		932						
250#		984						
260#		1037						

At what weight should hogs be marketed?______________________________

* 650 pounds of feed were needed to get hog to 180 pounds.

TM 2.5

Lesson 2: The Principle of Diminishing Returns Name ____________________

MAXIMIZING PROFITS IN MANUFACTURING

Objective: Calculate marginal input, average product, marginal product, total revenue, total cost, marginal revenue product, and marginal input cost.

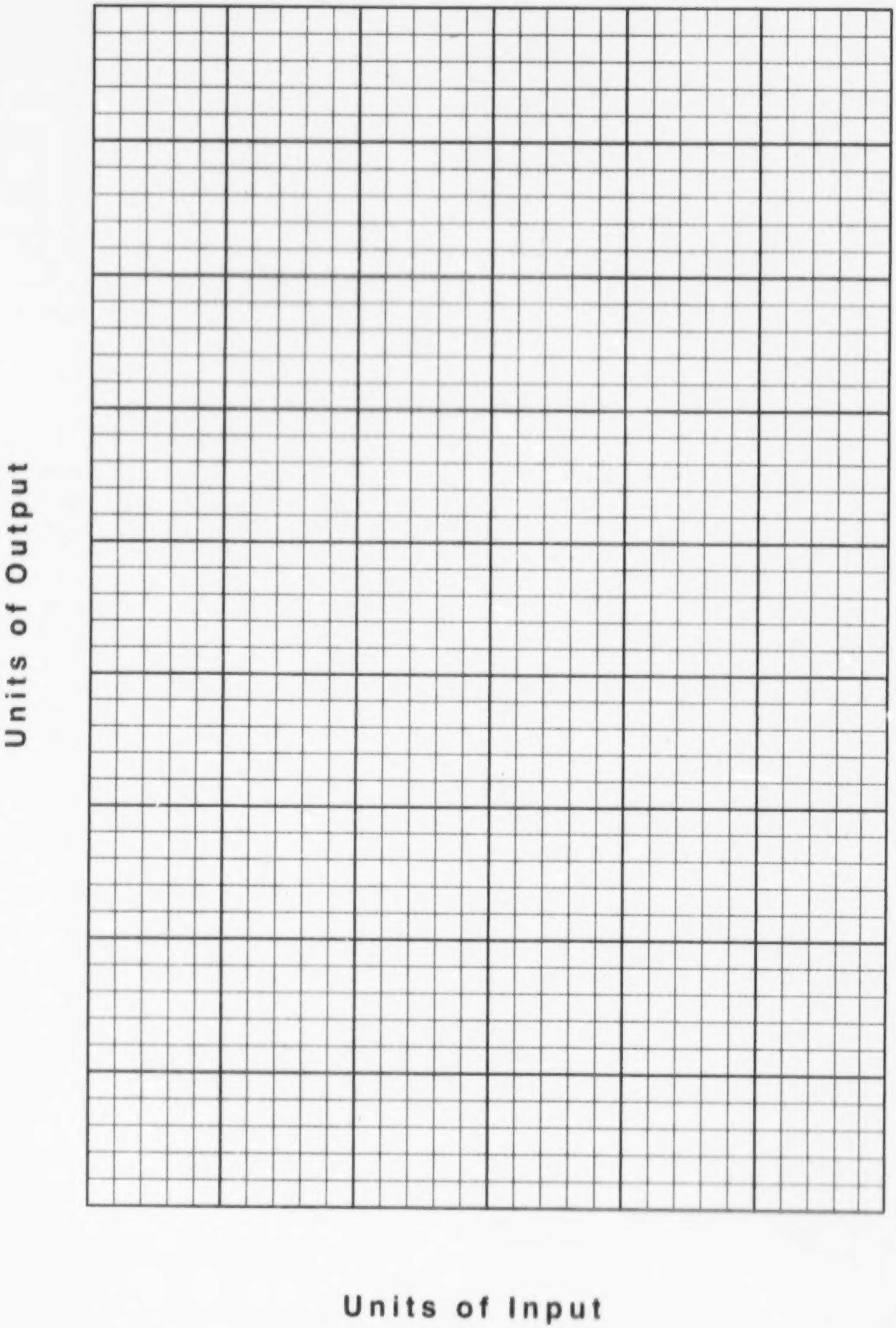
Jerry is a manager for the Do-Rite Agricultural Manufacturing Company. The company is considering expanding its manufacturing operation to building small portable hog feeders. There is a limited amount of space and equipment to get started, and Jerry has been asked to estimate how many new workers will be needed. Jerry has compiled the following information about the relationship between the number of workers used and the number of hog feeders that can be built in one day. Workers will be paid $80/day. Returns from hog feeders will be $100 each.

Calculate the amount of marginal input, average product, marginal product, total revenue, total cost, marginal revenue product, and marginal input cost. Then answer the question below.

No. of Workers	No. of Hog Feeders/Day	MI	AP	MP	TR	MRP	TC	MIC
1	.5		XX		XX		XX	XX
2	1.4							
3	3.9							
4	5.2							
5	6.2							
6	6.8							
7	6.8							

How many workers are needed? ____________________

Graph the total product, average product, and marginal product curves on the graph on the back of this sheet.


Units of Output
Units of Input

Lesson 2: The Principle of Diminishing Returns Name ____________________

MAXIMIZING PROFITS IN LAWN CARE SERVICE

Objective: Calculate marginal input, average product, marginal product, total revenue, total cost, marginal revenue product, and marginal input cost.

Chris owns a lawn and garden center and sells trees, shrubs, flowers, and other lawn and garden products. She knows there is a demand in the area for a complete lawn care service, since she already has customers that want the service. Chris has the equipment that will be used, but she is not sure how many workers she will need. She knows she can hire students to work about 20 hours per week to mow and trim lawns. She wants to do as many lawns as possible with the equipment she has available. Employees will be paid $100 per week, and the income for each lawn will be $30. Chris has put together the following information.

Calculate the amount of marginal input, average product, marginal product, total revenue, total cost, marginal revenue product, and marginal input cost. Then answer the questions below.

No. of Workers	No. of Lawns per Week (TP)	MI	AP	MP	TR	MRP	TC	MIC
1	12	XX		XX		XX	XX	
2	25							
3	35							
4	44							
5	50							
6	55							
7	58							
8	60							
9	61							
10	60							

How many workers should Chris hire? ____________________

How many lawns should she service? ____________________

Graph the total product, average product, and marginal product on the graph on the back of this sheet.

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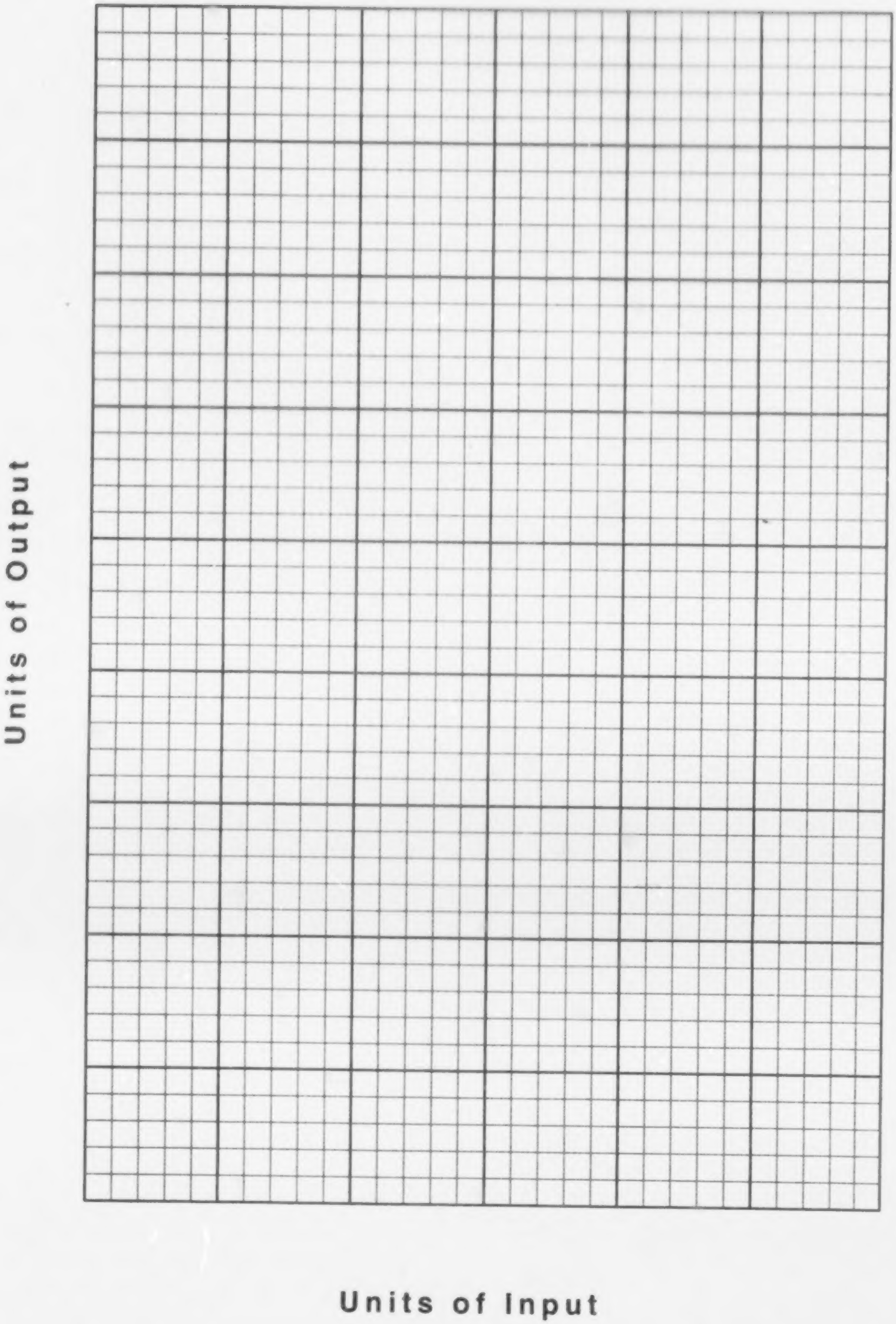

Units of Output
Units of Input

Lesson 2: The Principle of Diminishing Returns Name______________________________

MAXIMIZING PROFITS IN A SWINE PRODUCTION FACILITY

Objective: Calculate marginal input, average product, marginal product, total revenue, total cost, marginal revenue product, and marginal input cost.

Ashley is a manager for a large hog producer. The division of the company she manages receives the hogs at about 210 pounds and raises them to market weight. She is not sure of the most profitable weight at which to market the hogs. Ashley decides to do some research and come up with some estimates using the market price and feed cost, which are $45/cwt and $.09 per pound of feed.

Calculate the amount of marginal input, average product, marginal product, total revenue, total cost, marginal revenue product, and marginal input cost. Then answer the questions below.

Weight of Hogs (TP)	AP	Lbs. of Feed Fed	MI	MP	TR	MRP	TC	MIC
210#	XX	*650	XX	XX	94.50	XXX	58.50	XX
220#		694						
230#		739						
240#		785						
250#		832						
260#		881						
270#		932						
280#		984						
290#		1037						

At what weight should hogs be marketed?____

* 650 pounds of feed were needed to get the hog to 210 pounds.

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 3: Fixed and Variable Costs

Competency/Objective: Determine the per-unit fixed and variable costs of producing a given output.

Study Questions

1. **What are fixed costs?**
2. **What are the five types of fixed costs?**
3. **What are variable costs?**
4. **When do variable costs become fixed?**
5. **How is total cost calculated?**
6. **How are average variable cost (AVC), average fixed cost (AFC), and average total cost (ATC) calculated?**
7. **How can per-unit cost be used to make decisions?**
8. **What is the difference between the short and the long run?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit II.
2. Transparency Masters
    a) TM 3.1: Fixed and Variable Costs
    b) TM 3.2: Classification of Costs
    c) TM 3.3: Total Cost
    d) TM 3.4: Time Relationship
3. Activity Sheets
    a) AS 3.1: Classification of Costs
    b) AS 3.2: Fixed and Variable Costs

Lesson 3: Fixed and Variable Costs

TEACHING PROCEDURES

A. Review

The last lesson (Lesson 2) covered the principle of diminishing returns, which states that at some point in time the marginal product and marginal economic returns decrease with each additional unit of input. Maximum profit occurs when net economic returns are at their greatest point (MIC = MRP). In this lesson, the difference between fixed and variable costs will be discussed.

B. Motivation

Use the example of the costs associated with operating a car to introduce the concept of fixed and variable costs. Develop a list of the costs of operating a car on the board using these leading questions:

1. How many of you own a car?
2. How many of you drive a family car?
3. If you drive a family car, what costs do you have to pay?
4. If you own a car, what costs do you have to pay?
5. Are all the costs of operating a car alike?
6. What will be the cost of oil to you if you do not drive the car in the next year?
7. What will be the interest cost at 10 percent on $4,000 if you do not drive the car in the next year?
8. What other costs are associated with owning and operating a car?

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss the definition of fixed costs, associating "fixed" with "constant." Remind students that the goal of any business is to maximize profit.

   What are fixed costs?

   a) Fixed costs are costs that remain constant regardless of the level of production.
   b) Sometimes fixed costs are referred to as ownership costs or overhead costs.
   c) They are expenses that have to be paid on a regular basis.

2. Ask students to name the types of costs classified as fixed.

   What are the five types of fixed costs?

   The **DIRTI** Five fixed costs are:
   a) **Depreciation**
   b) **Interest**
   c) **Repairs and Shelter**
   d) **Taxes**
   e) **Insurance**

3. Ask students to discuss the definition of variable costs. Display TM 2.1 to illustrate the difference between fixed and variable costs. Using AS 3.1 and TM 3.2, have students classify costs as fixed

or variable. You may want to refer back to the motivation and talk about variable expenses, such as that of fuel, that occur with owning or operating a car.

What are variable costs?

Variable costs change in relationship with the level of production or the amount of use.

4. Discuss with students how variable costs may become fixed. Give students an example, such as the cost of seed corn becoming fixed after the seed has been planted.

When do variable costs become fixed?

Once an item has been purchased its cost is fixed. The money has been spent and cannot be spent elsewhere.

5. Ask students how total cost is calculated. Using TM 3.3, illustrate total cost. Hand out AS 3.2 and have students calculate fixed, variable, and total costs.

How is total cost calculated?

Total cost is equal to the fixed costs plus the variable costs.

6. Discuss with students the importance of average variable cost (AVC), average fixed cost (AFC), and average total cost (ATC).

How are average variable cost (AVC), average fixed cost (AFC), and average total cost (ATC) calculated?

a) $AVC = \frac{TVC}{Q}$

b) $AFC = \frac{TFC}{Q}$

c) $ATC = \frac{TC}{Q}$

7. Ask students to describe how per-unit cost can be used to make decisions in an agribusiness.

How can per-unit cost be used to make decisions?

Businesses use per-unit cost figures when making decisions because these figures reduce the values to equal units, such as tons, acres, or bushels. Businesses are generally interested in having low per-unit costs.

8. Discuss with students the influence of fixed and variable costs on short- and long-run decisions, using TM 3.4.

What is the difference between the short and the long run?

a) The short run is a period during which costs are both fixed and variable. Only inputs considered variable may be changed. To minimize losses, business should continue as long as variable costs are covered.
b) In the long run, all resources are variable. In the long run, businesses plan for future needs.

F. Other Activities

Have students classify their family's own business or household expenses as fixed or variable costs. Ask students how certain variable costs would turn to fixed costs. Students may also calculate total cost for their families.

G. Conclusion

Managers should consider two types of costs--fixed and variable--when making business decisions. In the short run, costs may be either one. As long as managers can meet variable costs, their businesses will continue to operate. In the long run, all costs are variable.

H. Answers to Activity Sheets

AS 3.1

Expenses	Fixed Costs	Variable Costs
Inventory		X
Salaries		X
Payroll		X
Depreciation	X	
Interest	X	
Supplies		X
Advertising		X
Taxes	X	
Miscellaneous		X
Insurance	X	
Repairs	X	
Telephone		X
Utilities		X
Principal Payment		X
Gasoline and Oil		X

AS 3.2

1.

	Gasoline	Diesel
Fixed Costs:		
Depreciation/year	2,692	3,178
Interest on average investment/year	1,130	1,334
Repairs/year	300	300
Insurance/year	300	330
Total fixed cost/year	4,422	5,142
Operating Costs:		
Fuel/mile	.08	.0478
Lubrication & gen. maint./mile	.02	.03
Total operating cost/mile	.10	.0778

$$\frac{\textit{Diesel Fixed Costs - Gasoline Fixed Costs}}{\textit{Diesel Operating Costs - Gasoline Operating Costs}} = \frac{\$720/\textit{year}}{\$.0222/\textit{mile}} = 32{,}432 \text{ miles per year}$$

2. $5,142 = .5142

```
    .5142 (Fixed cost/mile)
  + .0778 (Variable cost/mile)
    .5910 (Total cost/mile)
```

I. Answers to Evaluation

1. b
2. a,c,f,g
3. b
4. a
5. Depreciation
   Interest
   Repairs (shelter)
   Taxes
   Insurance
6. To minimize losses
7. ATC (average total cost per unit) = $\frac{TC}{Q}$
8. Economic depreciation/year = $1,062.50 ($9,500 - $1,000 = $8,500/8 years = $1,063)
   Interest on average investment/year = $683.00 ($9,500 + $1,000 = $10,500/2 = $5,250 X 0.13 = $683)
   Repair/year = $250.00
   Total fixed costs/year = $1,996.00 ($1,063 + $683 + $250 = $1,996)
   Fixed cost/day = $6.65 ($1,996/ 300 days)
   Labor/product = $2.33 ($7.00/ 3 =$2.33)
   Material/product = $1.00 ($3.00/3 = $1.00)
   Total variable cost/day = $ 3.33 ($2.33 + $1.00 = $3.33)
   Total cost/day = $9.98 ($3.33 var. + $6.65 fixed = $9.98)

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 3: Fixed and Variable Costs

Name ______________________________

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Costs that remain constant regardless of the level of production are known as ____________ costs.

   a. Variable
   b. Fixed
   c. Total
   d. Depreciation

2. Which of the following are variable costs that change in direct relationship with the level of production or amount of use? (More than one answer may be circled.)

   a. Advertising
   b. Depreciation
   c. Fuel
   d. Insurance
   e. Interest
   f. Salaries
   g. Supplies
   h. Taxes (property)
   i. All of the above
   j. None of the above

3. When does seed corn become a fixed cost?

   a. Before it has been purchased
   b. After it has been purchased
   c. When it sprouts
   d. Before it is harvested

4. Per-unit cost figures are used when making decisions because:

   a. Businesses want to have low per-unit costs.
   b. Those figures are needed to calculate average total cost.
   c. Businesses want to have high per-unit costs.
   d. Those figures are needed to calculate total cost.

Complete the following short answer questions.

5. List the five types of costs that are classified as fixed.

   a.
   b.
   c.
   d.
   e.

6. Why does it pay to operate in the short run if total costs are not covered?

7. What is the formula for figuring average total cost (ATC)?

8. Use the following information to calculate cost in the question below:

John is a manager for a large agricultural manufacturing company. He needs to decide whether or not to buy a new piece of equipment to be used in production. The new piece of equipment costs $9,500 and will be used approximately 300 days a year. John thinks it will last about eight years and have a salvage value at the end of those eight years of $1,000. He figures that the interest on the average investment will be around 13 percent. Repairs will run around $250 per year for the eight years it will be used. The equipment will produce three products per hour. John estimates the cost of labor to be $7.00 per hour and the material cost of running the machine to be $3.00 per hour.

How much will it cost to run the new piece of equipment per day?

Economic depreciation/year =

Interest on average investment/year =
(see bottom of page)

Repair costs per year =

Total fixed costs per year =

Fixed cost per day =

Labor cost per product =

Material cost per product =

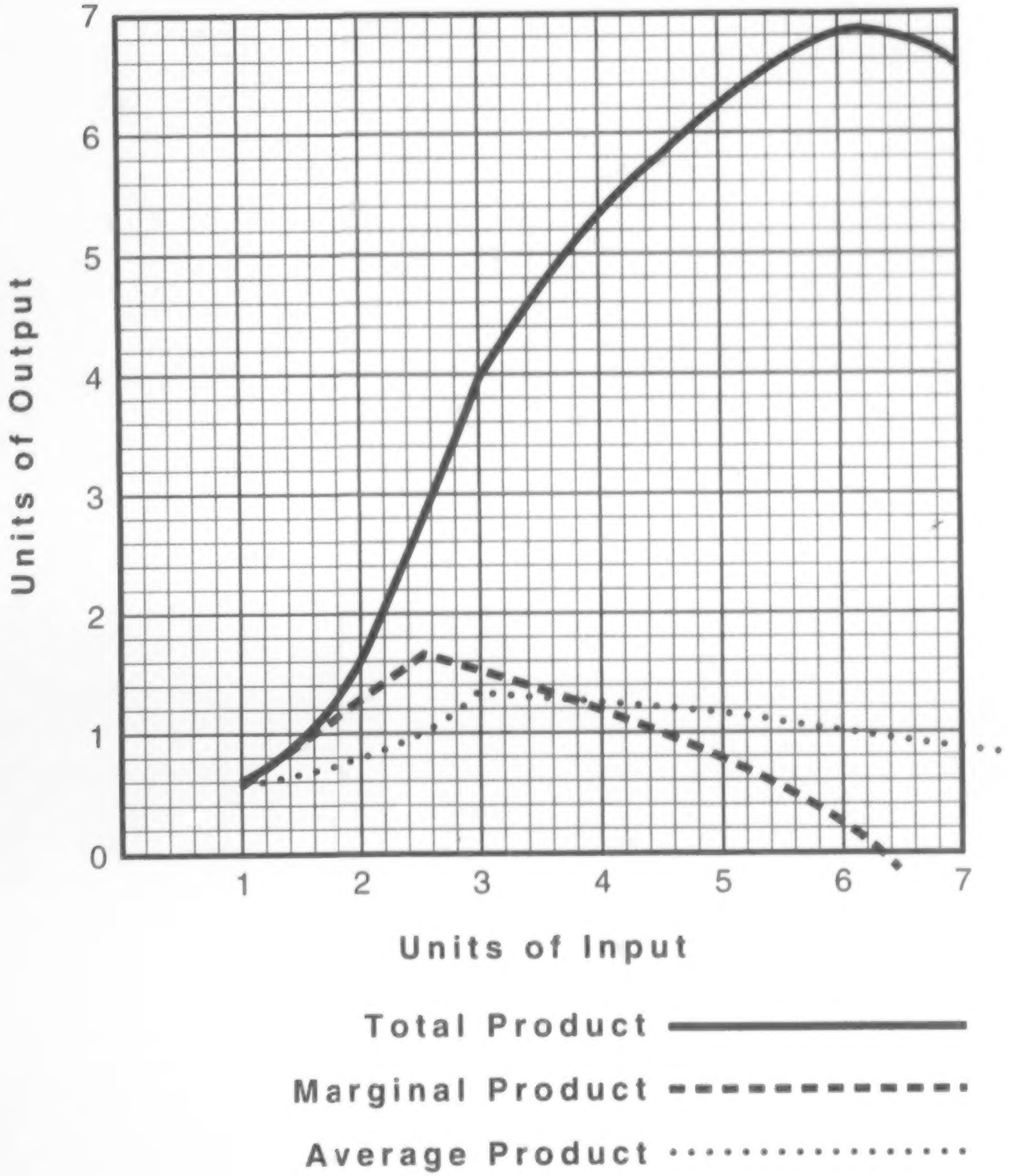
Total variable cost per day =

Total cost per day =

$$\frac{\underline{\text{Purchase Price + Trade-in Value}}}{2} = \text{Average Investment}$$

TM 3.1

Fixed and Variable Costs



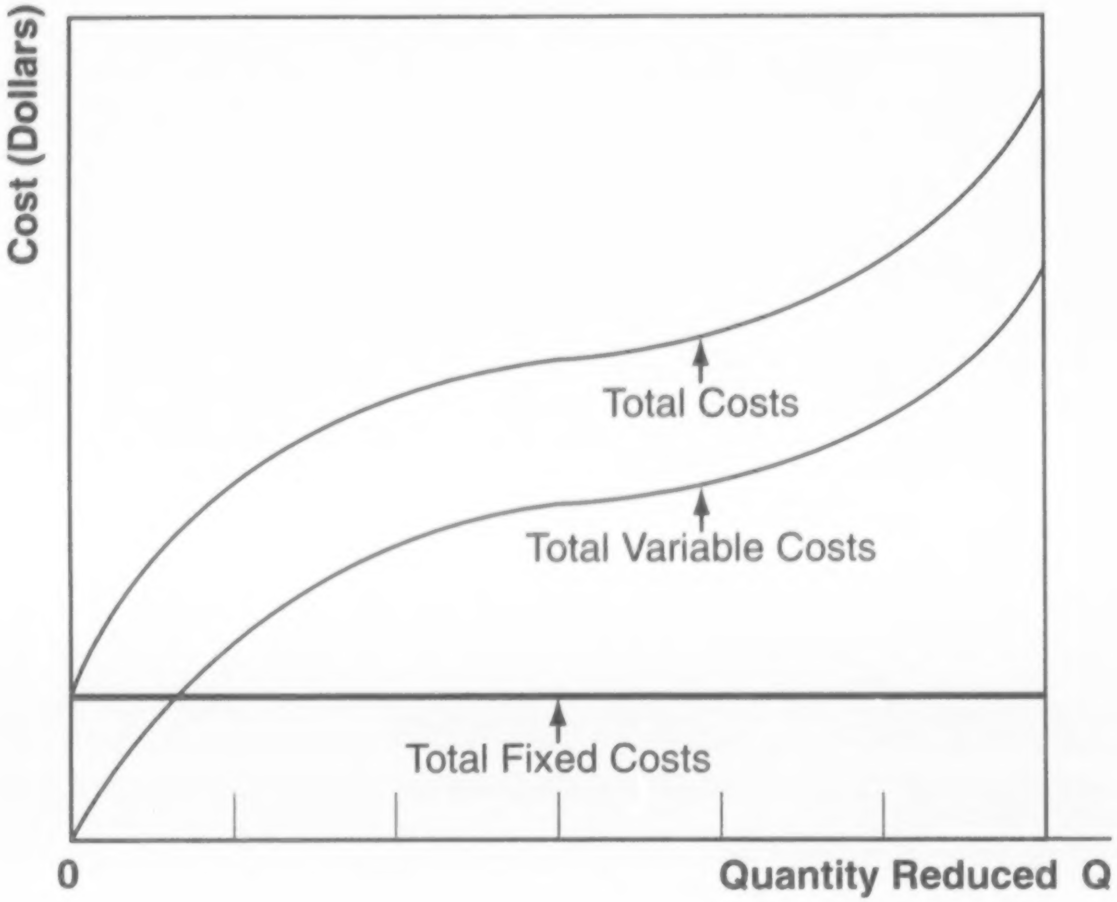
TM 3.2

Classification of Costs

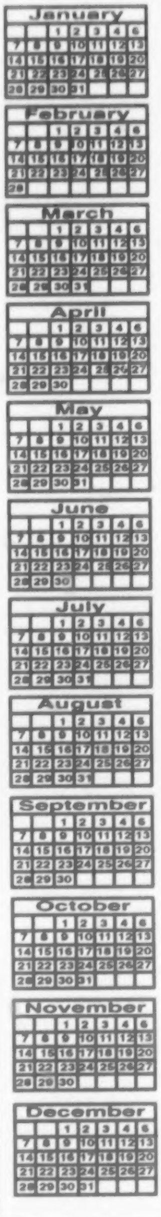
Expenses	Fixed Cost	Variable Cost
Inventory		
Salaries		
Payroll		
Depreciation		
Interest		
Supplies		
Advertising		
Taxes		
Miscellaneous		
Insurance		
Repairs		
Telephone		
Utilities		
Principal Payment		
Gasoline and Oil		

TM 3.3

Total Cost



Time Relationships


January
February
March
April
May
June
July
August
September
October
November
December

Short Run • • ▷

Time is insufficient to vary amounts of fixed resources.

Long Run • • • • • • • • • ▷

Time is sufficient to alter fixed resources to change output. In essence, these fixed resources become variable. All resources are variable in the long run.

Lesson 3: Fixed and Variable Costs

Name ______________________________

Classification of Costs

Objective: Identify fixed and variable costs.

Indicate whether each expense is fixed or variable.

Expenses	Fixed Cost	Variable Cost
Inventory		
Salaries		
Payroll		
Depreciation		
Interest		
Supplies		
Advertising		
Taxes		
Miscellaneous		
Insurance		
Repairs		
Telephone		
Utilities		
Principal Payment		
Gasoline and Oil		

Lesson 3: Fixed and Variable Costs

Name ____________________

Fixed and Variable Costs

Objective: Calculate fixed and variable costs.

Using the information given below, answer the following questions, by calculating the fixed and variable costs. Round figures to the nearest dollar when calculating fixed costs and to four decimal places for operating costs.

Karen is a buyer for a large agribusiness. She needs to purchase some small trucks for sales representatives who call on customers and deliver small amounts of their product. She does some checking at the dealer and learns that the small trucks that the company needs will cost $18,844 for a truck with a gasoline engine and $22,244 for a diesel. She figures that either type of truck will last about seven years with little or no salvage value. Diesel fuel will cost the company on the average approximately $1.10 per gallon and gasoline $1.20 per gallon. The gasoline operated truck has an overall miles per gallon rating of 15 miles per gallon, compared to 23 miles per gallon for the diesel. Insurance costs $150 every six months for the truck with the gas engine and $165 every six months for the diesel. The interest rate on the average investment will be around 12 percent. Repairs are estimated at $300 per year for each truck. Lubrication and general maintenance is estimated at 2 cents per mile on the gas and 3 cents per mile on the diesel.

1. How many miles must be driven to justify buying the diesel?

COST COMPARISON

FIXED COSTS:	GASOLINE	DIESEL
1. DEPRECIATION/YEAR		
2. INTEREST ON AVERAGE INVESTMENT/YR.		
3. REPAIRS/YEAR		
4. INSURANCE/YEAR		
TOTAL FIXED COST/YEAR		
OPERATING (VARIABLE) COSTS:		
1. FUEL PER GAL./MILES PER GAL.		
2. LUBRICATION & GEN. MAINT./MILE		
TOTAL OPERATING COST/MILE PER GAL.		

$$\frac{\textit{DIESEL FIXED COSTS} - \textit{GASOLINE FIXED COSTS}}{\textit{DIESEL OPERATING COSTS} - \textit{GASOLINE OPERATING COSTS}} = \frac{\textit{dollars/year}}{\textit{dollars/mile}} = \_\_\_\_\_\_ \text{ miles per year}$$

2. If Karen buys the diesel truck and sales representatives drive it an average of 10,000 miles per year, what is the cost per mile?

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 4: Substitution of Inputs

Competency/Objective: Determine the most profitable amount of substitution for inputs and/or outputs in an agribusiness.

Study Questions

1. **What does substitution mean?**
2. **How is maximum profit determined?**
3. **Define the two methods of substitution.**
4. **How is the best rate of substitution calculated?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit II.
2. Transparency Master
   - a) TM 4.1: Substitution
3. Activity Sheets
   - a) AS 4.1: Substituting Silage for Corn
   - b) AS 4.2: Substituting Hay for Corn

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 4: Substitution of Inputs

TEACHING PROCEDURES

A. Review

The last lesson discussed the difference between fixed and variable costs. Fixed costs, such as depreciation and taxes, remain constant regardless of the level of production. Variable costs change in direct relationship with the level of production or the amount of use. In this lesson, we will discuss substitution of inputs. Substitution is replacing one input with another in an attempt to maximize profit.

B. Motivation

Use the example of two brands of candy bars to illustrate the principle of substitution. (You may wish to bring a couple of candy bars to class.) Ask the students the following questions:

1. Which type of candy bar do you prefer?
2. If both it and a different kind of candy bar cost 55 cents, which would you buy?
3. If the one not chosen was reduced to 50 cents, would you select it over the other one that is still 55 cents?

NOTE: If the students would still select their original choice, keep reducing the price of the unchosen candy bar.

4. If the price difference remains the same, will you continue to buy the cheaper candy bar?

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss the definition of substitution with students. Talk about different substitutions that can be made in agribusiness to increase profit. Refer to TM 4.1.

   What does substitution mean?

   Substitution is replacing one input with another in an attempt to maximize profit.

2. Discuss with students the meaning of "maximum profit."

   How is maximum profit determined?

   Maximum profit is determined by the best combination of inputs, which are organized in such a way that the business' manager can neither add nor subtract inputs without decreasing profit.

3. Explain the two types of substitution (constant and variable) using an example of each type. An example of constant substitution would be exchanging one type of feed for another in a livestock ration. An example of variable substitution would be the replacement of workers by machines in a business.

Define the two methods of substitution.

a) Constant substitution - when one resource substitutes for another at the same rate for each additional unit of input

b) Variable substitution - when one resource substitutes for part of another at different rates for each additional unit of input

4. Ask students to calculate the best rate of substitution for several different agribusinesses, using AS 4.1 (TM 4.1) as an example. Have students do AS 4.2.

How is the best rate of substitution calculated?

a) Marginal Rate of Substitution (MRS):

$$MRS = \frac{\text{Number of units replaced}}{\text{Number of units added}}$$

b) Price ratio (PR):

$$PR = \frac{\text{Price of added units}}{\text{Price of replaced units}}$$

c) The best rate of substitution is when the marginal rate of substitution equals the price ratio.

$$MRS \ \frac{(\text{Number of units replaced})}{(\text{Number of units added})} = \frac{(\text{Price of added units})}{(\text{Price of replaced units})} \ PR$$

F. Other Activities

Discuss with students the history of substitutions in agriculture to maximize profit. Some examples are the use of tractors instead of horses, machine power instead of manpower, computers instead of ledgers, or no-till instead of tillage. Write their answers on the board, making a list of original items and their substitutes. Have students identify whether the substitution was constant or variable.

G. Conclusion

Substitution is desirable when it allows a product to be produced at a higher profit. The best level of substitution can be determined with the use of the substitution and price ratios.

H. Answers to Activity Sheets

AS 4.1

Ration	Pounds of Corn	Pounds of Corn Replaced	Pounds of Silage	Pounds of Silage Added	MRS	PR
A	1,950		1,200		XX	XX
B	1,790	160	1,400	200	.80	.75
C	1,640	150	1,600	200	.75	.75
D	1,500	140	1,800	200	.70	.75
E	1,370	130	2,000	200	.65	.75
F	1,250	120	2,200	200	.60	.75

Which ration would you feed? C
Why? MRS=PR, best possible level of substitution under these conditions

AS 4.2

Ration	Pounds of Corn	Pounds of Corn Replaced	Pounds of Hay	Pounds of Hay Added	MRS	PR
A	800		250		XX	XX
B	730	70	300	50	1.4	.69
C	675	55	350	50	1.1	.69
D	635	40	400	50	.8	.69
E	605	30	450	50	.6	.69
F	580	25	500	50	.5	.69
G	560	20	550	50	.4	.69

Which ration would you feed? D
Why? Closest point MRS ≥ PR

I. Answers to Evaluation

1. d
2. b
3. c
4. b

5.

#Workers	#Workers Replaced	#Machines	#Machines Added	MRS	PR
30		0			
	10		2	5	3
20		2			
	5		2	2.5	3
15		4			
	3		2	1.5	3
12		6			

How many should you buy? 2

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS	Name ______________________

Lesson 4: Substitution of Inputs	Date ______________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. How many items may be substituted for a single input?

   a. Only one
   b. Very few
   c. Only two
   d. Usually several, depending on what the input is

2. When is variable substitution used?

   a. When one unit of input will take the place of a set amount of another unit of input
   b. When one unit of input will take the place of different amounts of another input
   c. When prices of inputs are the same
   d. When prices of inputs are different

3. Purchasing a large piece of machinery in order to reduce the cost required to complete a particular operation is profitable if ______________.

   a. The savings in labor is less than the cost of owning the larger machine
   b. There is sufficient capital available
   c. The cost of owning the larger machine is less than the savings in labor
   d. The savings in labor is equal to the cost of owning the larger machine

4. The reason for using the substitution principle in deciding upon the right combination of inputs to use is ________________.

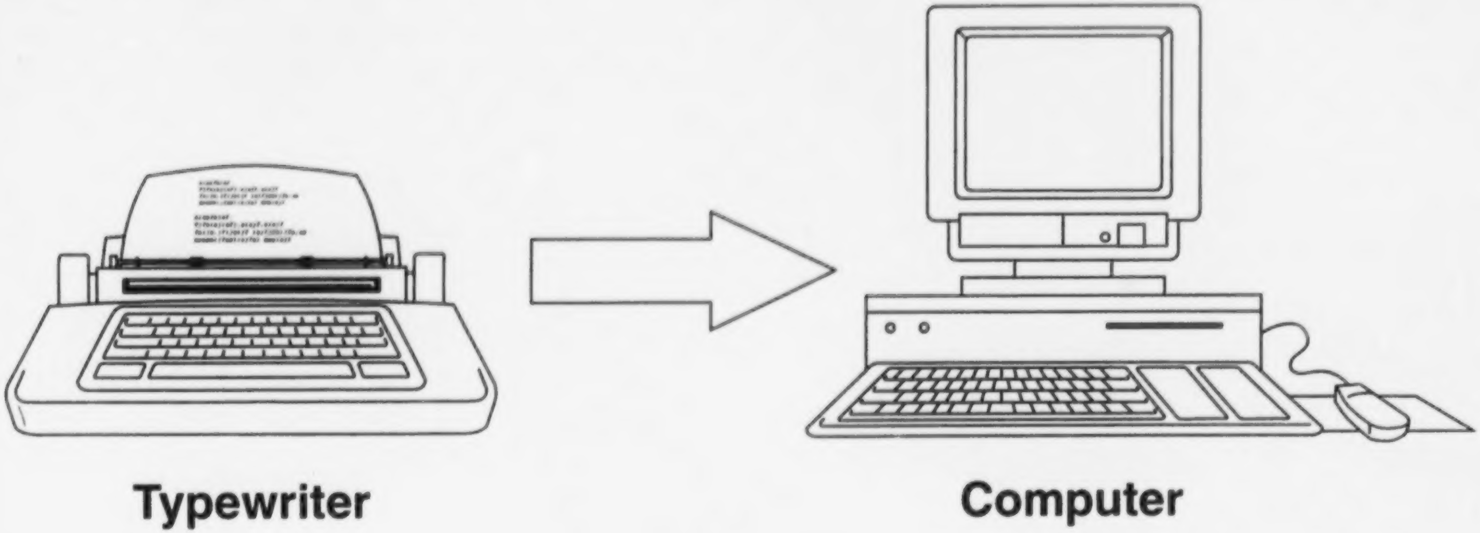
   a. To maximize cost
   b. To maximize profit
   c. To reduce fixed costs
   d. To minimize product cost

Fill in the table to answer the question below.

5. You are the manager of a company and your job is to maximize profit. Workers for a certain job are paid $400 a week. A new machine can replace different number of workers. It costs $1,200 a week to own and operate. How many should you buy? __________

# Workers	#Workers Replaced	#Machines	#Machines Added	MRS	PR
30		0			
20		2			
15		4			
12		6			

Substitution


Typewriter
Computer

Lesson 4: Substitution of Inputs

Name ____________________

SUBSTITUTING SILAGE FOR CORN

Objective: Determine the best rate of substitution.

Suppose you have just become manager of a large livestock feedlot. You have received a large number of 600-pound steers that need to be fed to 1,050 pounds each. You are able to substitute silage for corn, and you want to feed the steers at the lowest cost possible. Corn costs 4¢ per pound. Silage costs 3¢ per pound.

Fill out the table, calculating marginal rate of substitution and price ratio. Use the information to answer the questions below.

Ration	Pounds of Corn	Pounds of Corn Replaced	Pounds of Silage	Pounds of Silage Added	MRS	PR
A	1,950		1,200		XX	XX
B	1,790	____	1,400	____	____	____
C	1,640	____	1,600	____	____	____
D	1,500	____	1,800	____	____	____
E	1,370	____	2,000	____	____	____
F	1,250	____	2,200	____	____	____

What ration would you feed? ____________________

Why? ____________________

Lesson 4: Substitution of Inputs Name ______________________________

SUBSTITUTING HAY FOR CORN

Objective: Determine the best rate of substitution.

As the manager of a large livestock feedlot, you need to keep feed costs as low as possible while maximizing average daily feed gain. You have the option of substituting hay for corn. Your goal is to maintain 2.2-pound average gain per head. Corn costs $2.24 per bushel (4¢ per pound). Hay costs $55.00 per ton (2.75¢ per pound).

Fill in the table, calculating the marginal rate of substitution and price ratio. Then use the information to answer the questions.

Ration	Pounds of Corn	Pounds of Corn Replaced	Pounds of Hay	Pounds of Hay Added	MRS	PR
A	800		250		XX	XX
B	730	______	300	______	______	______
C	675	______	350	______	______	______
D	635	______	400	______	______	______
E	605	______	450	______	______	______
F	580	______	500	______	______	______
G	560	______	550	______	______	______

Which ration would you feed? ____

Why? ____

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 5: Opportunity Cost

Competency/Objective: Identify the opportunity cost of choosing one economic alternative over another.

Study Questions

1. **What is opportunity cost?**
2. **How are business decisions affected by opportunity cost?**
3. **What happens if a manager does not consider opportunity cost?**
4. **What measures can be used to represent opportunity cost?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit II.
2. Activity Sheets
   - a) AS 5.1: Opportunity Cost
   - b) AS 5.2: Return on Investment for a Cooperative Store

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Lesson 5: Opportunity Cost

TEACHING PROCEDURES

A. Review

Lesson 4 discussed how maximum profit is determined by the best combination of inputs, which are organized in such a way that the manager can neither add to nor subtract from the business without decreasing profit. The best level of substitution of inputs is where the marginal rate of substitution equals the price ratio. In Lesson 5, opportunity cost will be discussed. Opportunity cost is the difference between the return on one investment and the return on an alternative.

B. Motivation

Place a dollar on the table. Ask students how they would spend that dollar. Make a list of their answers. Show them that once a decision is made, the opportunity to spend the dollar in another way is gone.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask the students to describe opportunity cost. Work through the examples in AS 5.1 and 5.2.

   What is opportunity cost?

   Opportunity cost is the return on the best alternative not selected.

2. Discuss with students what decisions would be affected by opportunity cost.

   How are business decisions affected by opportunity cost?

   All business decisions involve limited resources, which are land, labor, and capital. Every business must find the right mixture of these resources to continue earning a profit.

3. Discuss with students what can happen if opportunity cost is not considered.

   What happens if a manager does not consider opportunity cost?

   If a manager fails to consider the opportunity cost of a decision, the opportunity to make a greater profit may be missed.

4. Discuss with students what factors can be used to represent opportunity cost.

   What measures can be used to represent opportunity cost?

   a) The rate of return on investment is used when the opportunity available requires different amounts of investment.
   b) Net return is used when different opportunities available require the same amount of investment.

F. Other Activities

Have an open discussion about opportunity cost. Ask the students what the opportunity cost of keeping more money than necessary in a checking account is. Have students come up with some examples.

G. Conclusion

All decisions have some costs. Managers need to consider the opportunity cost when making those decisions. Opportunity cost is the difference between the return on one investment and the return on an alternative. The rate of return on investment and net return are indicators of which alternative is the best choice.

H. Answers to Activity Sheets

AS 5.1:

Corn	$92
Soybeans	$100
Wheat	$100
Alfalfa	$100
Pasture	$100

Corn should be planted.

AS 5.2

Options:	A	B	C
	16' metal tubing gate (pipe)	16' metal galvanized gate	16' wooden gate
Expense	$70.00	$45.00	$30.00
Return	$80.00	$70.00	$40.00
Net Return:	$10.00	$25.00	$10.00
Rate of Return on Investment:	14.28%	55.56%	33.33%

What is the best option for purchasing farm gates for resale? B

I. Answers to Evaluation

1. b
2. a
3. c
4. c
5. Land, labor, and capital
6. Opportunity cost is the return on the best alternative not selected.
7. The manager may miss an opportunity to make a greater profit.

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UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS Name ______________________________

Lesson 5: Opportunity Cost Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following measures can be used to represent opportunity cost when the opportunities available require different amounts of investment?

   a. Net return
   b. Rate of return on investment
   c. Total return
   d. Total expense

2. Which of the following values could be an opportunity cost?

   a. $2,000 net return from steer operation that was not selected
   b. $1,500 total return from an alternative that was not selected
   c. $200 expense for supplies in an alternative that was not selected
   d. 12.5 percent rate of return on investment for the alternative selected

3. Opportunity cost is included in which of the following?

   a. Cash costs
   b. Expenses
   c. Noncash costs
   d. Returns

4. What would be the opportunity cost for selecting Option D if all options required a $1,750 investment?

   a. Option A: $2,000 net return
   b. Option B: $2,336 net return
   c. Option C: $2,950 net return
   d. Option D: $3,000 net return

Complete the following short answer questions.

5. List three limited resources that a manager must try to allocate to the best alternatives.

   a.

   b.

   c.

6. What is opportunity cost?

7. If a manager fails to consider opportunity cost, what may be the result?

Lesson 5: Opportunity Cost

Name ____________________________

OPPORTUNITY COST

Objective: Calculate opportunity cost.

John is a manager for a large feedlot. The owner of the feedlot has a chance to rent 800 acres next to the feedlot, but if he does, he is not sure what to plant. He has asked John to come up with some net return figures for different crops. John thinks he can get the following net returns.

Using the information given above, determine opportunity costs.

CORN	$100/ACRE
SOYBEANS	$ 92/ACRE
WHEAT	$ 60/ACRE
ALFALFA	$ 35/ACRE
FESCUE OR PASTURE	$ 15/ACRE

What is the opportunity cost if the owner decides to plant:

CORN ?

SOYBEANS ?

WHEAT ?

ALFALFA ?

PASTURE ?

What should be planted on the land?____________________________

Name ______________________

RETURN ON INVESTMENT FOR A COOPERATIVE STORE

Objective: Calculate the net return and rate of return on investment.

A cooperative dealer has a limited amount of money to use to stock the following options. Select the option that would be the most profitable by calculating the rate of return on the investment.

Fill in the table, calculating net return and rate of return on investment. Then answer the question.

Options:	**A**	**B**	**C**
	16' metal tubing gate (pipe)	16' metal galvanized gate	16' wooden gate
Expense	$70.00	$45.00	$30.00
Return	$80.00	$70.00	$40.00
Net Return:	____________	____________	____________
Rate of Return on Investment:	____________	____________	____________

What is the best option for purchasing farm gates for resale? ______________

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UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 6: Major Markets for Price Discovery in Agribusiness

Competency/Objective: Identify the major markets for price discovery in the United States.

Study Questions:

1. **What are the major markets for price discovery in the United States?**
2. **How are the commodities markets utilized by agribusiness?**
3. **How is the stock market utilized by agribusiness?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit II.
2. Transparency Masters
    a) TM 6.1: Live Cattle Futures
    b) TM 6.2: Agricultural Options
3. Activity Sheets
    a) AS 6.1: Live Cattle Futures
    b) AS 6.2: Agricultural Options
4. Handout
    a) HO 6.1: The History of the Chicago Board of Trade

Lesson 6: Major Markets for Price Discovery in Agribusiness

TEACHING PROCEDURES

A. Review

In Lesson 5, opportunity cost was discussed. Opportunity cost is the difference between the return on investment and the return on an alternative. Lesson 6 will discuss the major markets in which prices for agricultural products are discovered. Price discovery is the process by which buyers and sellers arrive at a specific price for a given lot of product in a given location.

B. Motivation

1. Give students HO 6.1 and allow them to read it. Discuss the history and function of the Chicago Board of Trade with the students.

2. Ask the students what the present prices of soybeans, corn, hogs, and cattle are. Write the amounts on the board, and then ask them how these prices were determined. Write the answers on the board. After the supervised study, ask them again how prices are determined, and write the answers on the board. Discuss whether they still agree with their original answers.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask the students to list the major markets for price discovery in the Unites States. Discuss the purpose of the commodities market.

What are the major markets for price discovery in the United States?

a) The major markets for price discovery in the United States are commodities exchanges.
b) Price discovery is the process by which buyers and sellers arrive at a specific price for a given lot of produce in a given location.
    1) Supply and demand and the market clearing price are estimated.
    2) Price discovery differs from price determination, which is based on the general principles of supply and demand.
    3) The equilibrium price target for each transaction is discovered in the marketplace based on the bargaining powers of buyers and sellers.
    4) The price does not necessarily equal the market clearing price, as it does in price determination.
c) The commodities market allows the price discovery system to function by providing an organized marketplace, providing uniform rules for trading, delivery, and payment, and collecting and distributing price information to the public.

2. Discuss how agribusinesses utilize the commodities markets. Explain the important role of speculators in the market. Define the terms used in futures marketing. Using AS 6.1 and 6.2, work some sample problems with students that involve hedging and the use of options. TM 6.1 and 6.2 illustrate the answers to the activity sheets.

NOTE: Current stock prices are available on the Internet from sites such as the Chicago Board of Trade.

How are the commodities markets utilized by agribusinesses?

a) Producers and agribusinesses use the commodities market to protect themselves against price changes.

b) Speculators carry out a large part of commodities trading and have a large impact on the discovery of price. Speculators are generally interested not in agricultural products but in selling the futures contracts for those products at higher prices than those at which they were purchased.

c) Producers, agribusinesses, and speculators trade futures contracts for the purchase and sale of commodities for future delivery, trading them on the commodities exchange.

    1) Hedging - means of managing price or market risk by taking an opposite position in the futures market from that held in the cash market
    2) Basis - difference between the local cash price and the expiring futures contract
    3) Long - buying a futures contract without closing out one's position through an offsetting sale or taking delivery
    4) Short - selling a futures contract without closing out one's position through an offsetting purchase or taking delivery
    5) Long hedge - buying a futures contract to offset the risk of a price increase on an upcoming cash commodity purchase
    6) Short hedge - selling a futures contract to offset the risk of a decline in prices on an upcoming cash commodity sale

d) Agricultural options are another tool that can provide price insurance and market flexibility for producers and agribusinesses.

    1) Option - contract that gives its owner the right, but not the obligation, to buy or sell a futures contract at a certain price for a certain period of time
    2) Strike price - guaranteed price at which the futures contract can be bought or sold
    3) Call option - conveys the right to purchase a futures contract at a designated strike price
    4) Put option - conveys the right to sell a futures contract at a specific strike price
    5) Premium - price that must be paid for an option

3. Discuss how stocks are used by agribusiness corporations and other corporations to raise money. Explain how stocks are bought and sold at stock exchanges.

How is the stock market utilized by agribusiness?

a) The sale of stock to individuals provides money agribusiness corporations can use to start or expand operations.

b) Individuals or other companies that purchase shares of stock are called shareholders or stockholders. Stockholders receive certificates called shares that indicate the number of units of stock they have purchased and entitle them to a share of the profits.

c) The two main categories of stock are common and preferred.

F. Other Activities

1. Have a commodities broker visit the class and discuss the mechanics of hedging. Be sure the students understand the basic principle before the visit occurs. The visit could emphasize how to work with a broker and how to start a commodities trading account.

2. Invite a local grain elevator manager or owner who uses price protection in the commodities market to discuss futures contracting.

3. Have students pretend to purchase a commodity and then follow its movement in the commodities market for a set period. Compute profit or loss.

4. Obtain the *Commodity Challenge* by calling or writing the Chicago Board of Trade. This 57-page booklet provides additional information on commodities markets and activities for students.

5. Divide the class into teams and have them do FFA's Commodity Marketing Activity. The activity involves determining when to buy and sell products to achieve the greatest economic gain.

6. Show videos from the Farm Credit Services Series, available from MVRC: "Speculation," "The Hedge Broker and Types of Orders," "Introduction to the Futures Market," "The Futures Market: Hedging," "Introduction to Agricultural Options."

G. Conclusion

The commodities market is the major market for price discovery. Price discovery is the process by which buyers and sellers arrive at a specific price for a given lot of produce in a given location. It is the process in which the equilibrium price target is discovered and applied to each transaction in the agricultural marketplace. The stock exchange is the means by which agribusiness corporations raise money to establish or expand the size of the corporation.

H. Answers to Evaluation

1. c
2. a
3. d
4. b
5. a

6. In price discovery, buyers and sellers arrive at a specific price for a particular lot of produce in a given location. It does not necessarily equal the market clearing price. Price determination is based on the general principle of supply and demand and equals the market clearing price.

7. The commodities market provides an organized marketplace, set out uniform standards for trading, delivery, and payment, and collect and distribute price information to the public. These functions allow price discovery to take place.

Name________________________

Date________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What is the process by which buyers and sellers arrive at a specific price for a given lot of produce in a given location?

   a. Price determination
   b. Price point
   c. Price discovery
   d. Strike price

2. What is it called when participants in the commodities market take an opposite position in the futures market to that in the cash market as a means of managing price risk?

   a. Hedging
   b. Basis
   c. Price discovery
   d. Price determination

3. What is the difference between the local cash price and the nearby expiring futures contract?

   a. Short hedge
   b. Long hedge
   c. Strike price
   d. Basis

4. What gives the owner the right, but not the obligation, to buy or sell a futures contract at a certain price for a certain period of time?

   a. Hedging
   b. Option
   c. Long hedge
   d. Short hedge

5. What are the two main categories of stock?

   a. Common and preferred
   b. Short and long
   c. Common and special
   d. Regular and preferred

Complete the following short answer questions.

6. What is the difference between price determination and price discovery?

7. What are the primary functions of the commodities market?

TM 6.1

LIVE CATTLE FUTURES

Date	Cash	Futures	Basis
April	Expected hedge price in October = $66.70/cwt.	Sell Oct 1 live cattle futures @ $68.70/cwt.	Expected = -$2.00/cwt.

When you offset your hedge, what is the realized sales price?

Date	Cash	Futures	Basis
April	Expected hedge price in October = $66.70/cwt.	Sell Oct 1 live cattle futures @ $68.70/cwt.	Expected = -$2.00/cwt.
October	Cash sales price = $61.75/cwt.	Cattle futures sell Oct 1 @ $63.50/cwt.	Actual = -$1.75/cwt.
		Gain of $5.20	Improvement = +$0.25

Cash Sale Price + Futures Gain = Realized Hedge Price
$61.75 + $5.20 = $66.95/cwt

AGRICULTURAL OPTIONS

Date	Cash	Futures	Option
Nov. 1	$2.00/bu.	$2.50/bu.	Buy put option with $2.50 strike price, 20 cents premium
Jan. 10	Sell @ $1.80/bu.	$2.30/bu.	Sell put option with $2.50 strike price, 40 cents premium

What is the total return received on the sale of the corn?

	January cash price	=	**$1.80**
+	**Premium gain**	=	**.20**
	Total return	=	**$2.00**

Suppose that instead of falling, corn prices rise:

Date	Cash	Futures	Option
Nov.1	$2.00/bu.	$2.50/bu.	Buy put option with $2.50 strike price, 20 cents premium
Jan. 10	Sell @ $2.40/bu.	$2.90/bu.	

What should be done with the option?

The option should be allowed to expire.

What will the total return on the corn be?

January cash price = $2.40
- Premium loss = .20
Total return = $2.20

Lesson 6: Major Markets for Price Discovery in Agribusiness Name________________________

Live Cattle Futures

Objective: Calculate prices on futures contracts.

Use the information below to answer the question.

Suppose you manage a large livestock feed lot. It is now April, and you have 300 steers that will be ready for the cash market in October. You are afraid that prices will decline, and you want to protect the price that you will receive with a short hedge in live cattle futures.

Date	Cash	Futures	Basis
April	Expected hedge price in October = $66.70/cwt.	Sell Oct. 1 live cattle futures @ $68.70/cwt.	Expected basis = -$2.00/cwt.

In October, live cattle futures are trading at $63.50/cwt. The local cash market is at $61.75.

When you offset your hedge, what is the realized hedge price?

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Lesson 6: Major Markets for Price Discovery in Agribusiness Name______________________________

Agricultural Options

Objective: Calculate the return on an options contract.

Use the information to answer the questions below.

Suppose you are a manager for a large corporate grain producer. You have a large amount of stored corn scheduled to be sold in January and are concerned about prices. You decide to purchase a put option to protect the corporation against falling market prices. You observe the market and make the following decisions.

Date	Cash	Futures	Option
November 1	$2.00/bu.	$2.50/bu.	Buy put option with $2.50 strike price, 20 cents premium
January 10	Sell @ $1.80/bu.	$2.30/bu.	Sell put option with $2.50 strike price, 40 cents premium

What is the total return received on the sale of the corn?

Suppose that instead of falling, corn prices rise:

Date	Cash	Futures	Option
November 1	$2.00/bu.	$2.50/bu.	Buy put option with $2.50 strike price, 20 cents premium
January 10	Sell @ $2.40/bu.	$2.90/bu.	

What should be done with the option?

What will the total return on the corn be?

HO 6.1

The History of the Chicago Board of Trade

The history of commodity futures trading is closely associated with the city of Chicago. Chicago became a city in 1837 with a population of 4,107. The city grew rapidly because of its location at the lower terminus of the Great Lakes close to the fertile lands of northern Illinois, since the opening of the land depended chiefly on water transportation.

Originally, the grain and livestock required for the city of Chicago were produced nearby, but as the city began to grow and farms began to spread out across the plain, it became more difficult for Chicago's citizens to obtain the produce they needed. To make transportation of goods such as grains easier, plank roads were built out into the countryside a substantial distance from the city. Railroads were built, and trains traveled in all directions in and out of Chicago carrying agricultural freight. Chicago became a major terminus for grains after the completion of the Illinois-Michigan Canal in 1848.

The Chicago Board of Trade was organized in 1848. Its 82 members were responsible for promoting commerce in the city. In 1859, the Board of Trade was licensed by the state of Illinois to hire and instruct personnel to measure, gauge, weigh, and inspect grain. Until this time, Chicago had followed the Old World custom of public trading, in which trading took place in city squares and on street curbs. The grain trade then moved from curb to curb, with merchants often buying agricultural products in several places in one day. To end this confusion, the Board of Trade provided a facility to display grains, with regular hours for trading to take place.

At the time, a great deal of risk was involved in holding corn through the winter until spring. Bankers were very reluctant to issue large loans on unsold corn. The river merchants selling grain quickly developed their own method of selling futures by going to Chicago and making contracts at firm prices for the delivery of grain in the spring. The first commodity contract on record was made on March 13, 1851. It was a contract for the delivery of 3,000 bushels of corn in June at the price of one cent per bushel under the price on March 13.

In May 1865, the first rule dealing with time contracts was established by the board. It provided for the deposit of a margin that was not to exceed 10 percent of the value of the commodity. Other rules were adopted in October 1865, that provided for certain procedures to be followed in the event of failure to deliver. The rules also provided for standard delivery procedure and terms of payment.

By the late 1800s, futures contracting had passed into the hands of speculators. Speculators became vital early in the development of commodity market; they were much better prepared to assume price risks than were the commercial interests.

As time passed and the size of the market increased, more rules were adopted. The process of futures trading became a better way of making the market efficient and fair. It also became a source of income for the owners and employees of commission houses, commodity brokerage firms, and commodity exchange employees. Today, the Chicago Board of Trade consists of thousands of members who are authorized to buy and sell contracts. These members provide the means for the market to operate smoothly and efficiently.

Lesson 7: Government and the Economics of Agriculture

Competency/Objective: Explain how the government is involved in the economics of agriculture.

Study Questions:

1. **Why does the government become involved in agriculture?**
2. **How does government involvement impact the agricultural industry?**
3. **What effect does the government have on agricultural prices?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit II.
2. Transparency Masters
    a) TM 7.1: The Effect of Government Storage Programs
    b) TM 7.2: The Effect of Price Controls
3. Activity Sheet
    a) AS 7.1: The Government's Impact on Agriculture

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS

Lesson 7: Government and the Economics of Agriculture

TEACHING PROCEDURES

A. Review

As discussed in Lesson 6, commodities markets are the major markets for price discovery. Price discovery is the method by which buyers and sellers arrive at a specific price for a given lot of agricultural product at a given location. The lesson also covered the stock market, which is used for raising money to start and expand corporations. Lesson 7 is about how and why the government becomes involved in the economics of agriculture. Government involvement in agriculture has affected supply and demand as well as the price of agricultural products. Government policies continue to change to meet what are considered to be the social, economic, and political needs of the nation.

B. Motivation

Discuss the following dilemma with the class. Ask students why it is acceptable for the government to pay for agricultural producers not to grow crops on their land through programs such as CRP. Explain to them that programs like this are designed to protect the soil and to prevent soil and other pollutants from entering our rivers and streams. Ask students if they believe this is a good program. Ask those students who say it is why they think government agencies such as the EPA assess large fines against other businesses for polluting our rivers and streams instead of paying them to protect the environment.

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss with students why the government becomes involved in agribusiness. Explain to them that, historically, the major justification for government involvement has been to maintain an ample food supply at a reasonable price, but goals and values have changed over time, increasing the government's involvement in the agricultural industry.

To illustrate the effect of government intervention, refer to TM 7.1. Increased production led to a large surplus of corn. The equilibrium was at P_1 and Q_1, but the surplus shifts the supply curve from S_1 to S_2. The price then lowers to P_2, and the quantity demanded increases to Q_2. To avoid this decrease in price during periods of high production, government storage programs would remove Q_2 minus Q_1 bushels of corn to storage. This would bring the supply back to S_1, and equilibrium would temporarily be restored at P_1 and Q_1.

Why does the government become involved in agriculture?

a) To ensure the safety of the food supply
b) To ensure an adequate food supply through programs that expand agricultural production
    1) Irrigation projects
    2) Research
    3) Extension education services
c) To increase export earnings
d) To use exports as a part of foreign policy
e) To protect the environment, ensuring the capacity of agriculture to produce in the future
    1) Soil conservation programs
    2) Programs for water conservation and the preservation of prime farmland
f) To support farm income

2. Ask students to describe the effects of government involvement on the agricultural industry.

How does government involvement impact the agricultural industry?

a) Policies dealing with the safety of the food supply have had positive and negative effects.
   1) Banning certain herbicides and insecticides has decreased production through the loss of crops to weeds and insects.
   2) Regulations to ensure sanitation and to eliminate the dumping of waste have improved food safety but have also increased production costs and the costs of agricultural commodities; they have had the side effect of forcing many small producers out of certain areas of agricultural production.
b) Policies to expand the food supply have increased productivity.
c) Conservation programs have had a positive impact on the environment.
d) Government policies have made it possible to increase exports, generating more profits for the agricultural industry.
e) Storage programs to control the price of agricultural products have helped agricultural producers during times of high production. They have also encouraged agricultural producers to depend on government intervention to correct the market rather than make changes themselves to meet the demands of competition.

3. Historically, the government has used four programs to control the price of food. Have the students list and describe these programs.

Use TM 7.2 to illustrate what happens without government price controls. Suppose the market for meat with no price control is at equilibrium, that is, supply is equal to demand. This would be at P_1 and Q_1. If consumers income increases because of an increase in wages, the demand for meat will become greater, and demand will shift to D_2. This means that consumers will wish to purchase more meat at each price than previously.

If consumers buy more, prices will go up. At the original price, consumers are now willing to buy the quantity of meat at Q_3 if it is available. The retail meat seller will attempt to buy more meat to satisfy demand, but because supply remains unchanged, a shortage of meat will occur at price P_1 equal to Q_3 minus Q_1. The retailer will have to pay higher prices to obtain enough meat. This price increase will be passed on to the consumer. The rising price will cause more meat to be produced and processed, but it will also discourage consumption. Price and quantity demanded will thus move to a new equilibrium point at P_2 and Q_2.

Have students complete AS 7.1.

What effect does the government have on agricultural prices?

a) Direct price controls have been implemented to control the food supply and prices in times of military conflict or in peacetime when there was high inflation and a decline in wages.
b) Export restrictions have been used by the government to control the food supply and domestic prices; they increase the food supply and lower prices.
c) Reducing import restrictions and allowing more products to be imported increases the food supply and lowers prices.
d) Domestic grain reserves are used as an inflation-fighting tool. If grain prices are too high, the government will release some of the reserves, which increases supply and lowers the price. If the prices are too low, the government can increase the price by increasing reserves.

F. Other Activities

Invite a government representative from your local FSA office to discuss the different programs that the state and federal governments administer. Discuss how these programs affect agriculture.

G. Conclusion

The government has become involved in agriculture for a variety of reasons, and its policies have a great impact on the agricultural industry. Price controls instituted by the government in response to a need to stabilize the U.S. economy or to control food prices are a very important type of government intervention.

H. Answers to Evaluation

1. c
2. d
3. b

4. Instituting direct price controls, restricting exports, reducing import restrictions, and controlling grain reserves

5. Storage programs to control the supply and price of agricultural products have helped agricultural producers during times of high production. They have also encouraged agricultural producers to depend on government intervention to correct the market rather than make changes themselves to meet the demands of competition.

UNIT II - ECONOMIC PRINCIPLES IN AGRIBUSINESS Name____________________________

Lesson 7: Government and the Economics of Agriculture Date____________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Regulations to ensure sanitation and to eliminate the dumping of waste in processing facilities have:

   a. Not had an impact on food safety.
   b. Decreased the costs of production.
   c. Increased the costs of commodities.
   d. Not affected small producers.

2. Which of the following is not a reason that the government has become involved in agriculture?

   a. To ensure the safety of the food supply
   b. To protect the environment
   c. To regulate agricultural prices
   d. To decrease farm income

3. Government programs to increase the food supply have:

   a. Not affected productivity.
   b. Made it possible to increase exports.
   c. Made it possible to increase imports.
   d. Decreased productivity.

Complete the following short answer questions.

4. What are four approaches that the government has used to control the price of food?

   a.

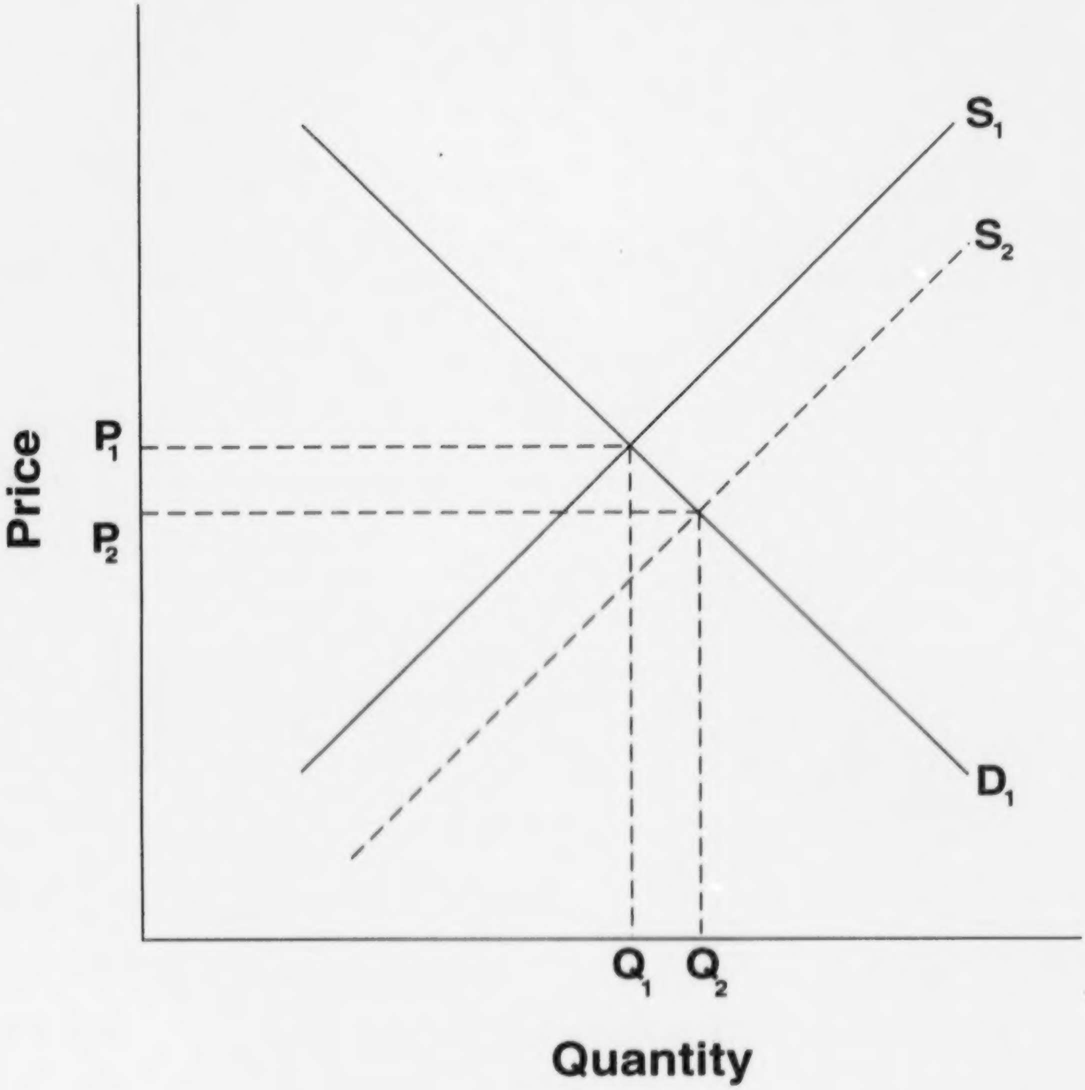
   b.

   c.

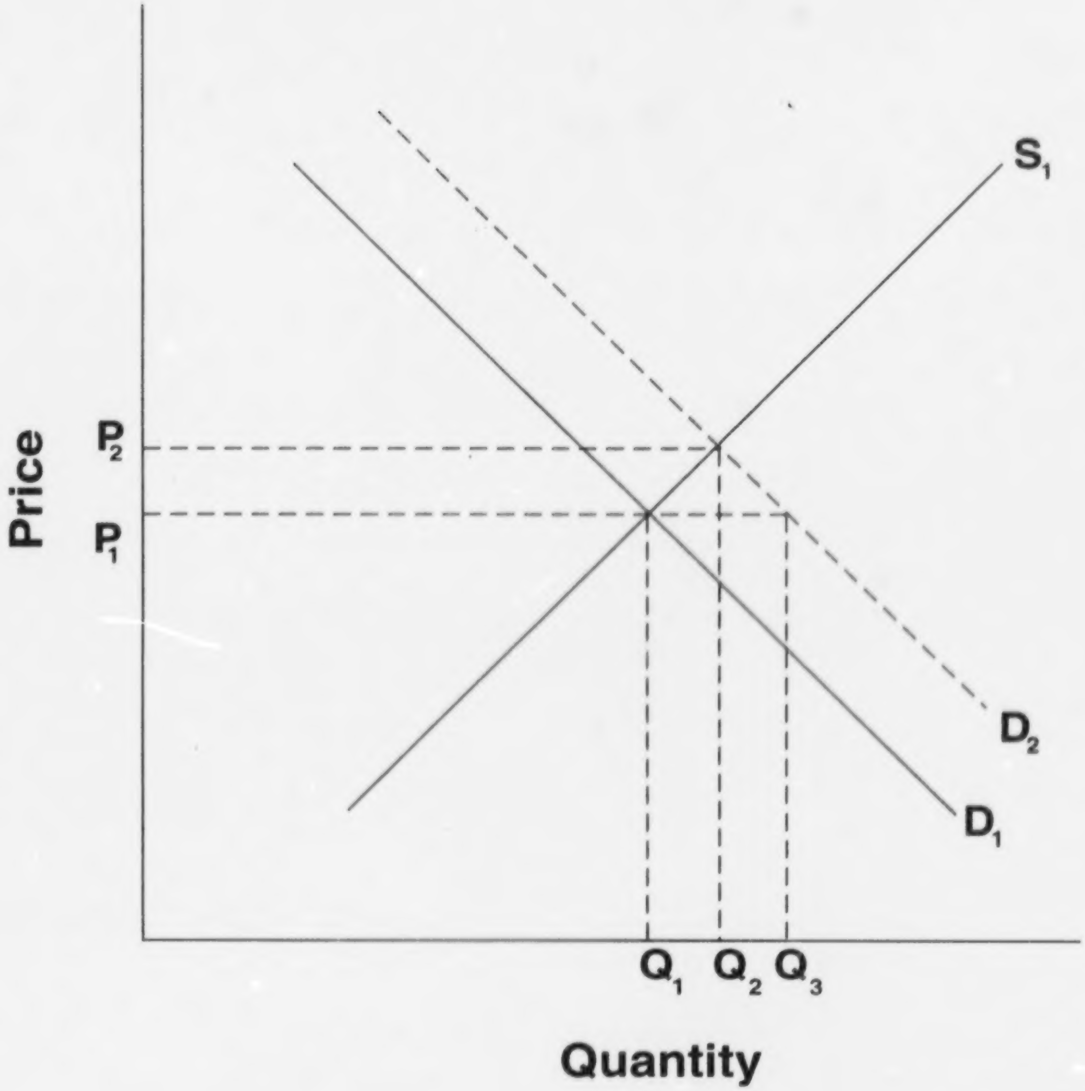
   d.

5. What effect have government storage programs had on the agricultural industry?

The Effect of Government Storage Programs



The Effect of Price Controls



Lesson 7: Government and the Economics of Agriculture Name______________________________

The Government's Impact on Agriculture

Objective: Examine the impact the government has on agriculture.

Research the impact of the government on agriculture by looking at the effects of a specific government program, such as CRP. Your research may be done using current periodicals or the Internet. Answer the following questions. Then report the results to the class.

1. How does the program affect the economy?

2. Does the program affect agricultural productivity? If so, how?

3. What do you think would happen if the government suddenly ended this program?

UNIT III - FINANCIAL MANAGEMENT

Lesson 1: Managing Financial Resources

Competency/Objective: Explain how to manage financial resources.

Study Questions:

1. **Why is financial planning important?**
2. **Why are goals and objectives important in financial planning?**
3. **What are the steps in the financial planning process?**
4. **How do education and experience affect a financial plan?**
5. **Why is it important to manage company resources?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit III.
2. Activity Sheets
    - a) AS 1.1: Recording Receipts
    - b) AS 1.2: Monitoring Spending
    - c) AS 1.3: Setting Goals
    - d) AS 1.4: Business Expense Report

UNIT III - FINANCIAL MANAGEMENT

Lesson 1: Managing Financial Resources

TEACHING PROCEDURES

A. Introduction

Planning for the future is more than setting educational or career goals. Goals have associated costs, and arrangements must be made to finance them. Financial planning helps manage money so that goals and objectives can be reached.

B. Motivation

Discuss the importance of financial planning with students. Ask students what they plan to do after completing high school. Make a heading for each type of plan. Some examples are starting a full-time job, attending technical school, or attending college. Under each heading, list some of the expenses associated with that choice. Expenses include the costs of transportation, housing, entertainment, clothes, and food, as well as the miscellaneous costs associated with starting a job or going away to school. Discuss the different ways that financial planning makes meeting some of these expenses easier. Ask students if they have planned for the costs of their choices.

C. Assignment

In the lessons in this unit, students will be completing various activity sheets that will make up their financial plans. AS 1.1, 1.2, 1.3, and AS 2.1 (from the following lesson) will allow the students to begin planning. The instructor should have the students keep these sheets for future reference and record their expenses for the next month. At the end of the month, following the forms' completion, the students should prepare one-page written reports comparing their actual spending to their planned expenditures and outlining any necessary changes. They should then prepare revised budgets, using AS 2.1.

D. Supervised Study

E. Discussion

1. Ask the students why financial planning is important. Point out the importance of their beginning now to plan for goals in the future. Ask students if they know how much money they receive per week, per month, or per year. Have students list the sources and amounts of money they receive on AS 1.1. Have them use AS 1.2 to record their spending.

   Why is financial planning important?

   a) A financial plan reveals how much money is received.
   b) It enables the planner to monitor spending.
   c) It can help an individual accomplish his or her goals.

2. Discuss the importance of establishing goals and objectives in financial planning. Have students list their short-, intermediate-, and long-term goals and what they think those goals will cost. Be sure to have them project any future educational costs. Have students fill out AS 1.3.

Why are goals and objectives important in financial planning?

a) Goals are statements of what an individual wants to accomplish personally and/or financially. Goals indicate where financial resources will be needed.
b) Objectives are the steps necessary to achieve specific goals. Setting objectives allows an individual to plan the use of financial resources and measure progress toward goals.

3. Have students list the steps involved in financial planning. Show how the information recorded on AS 1.1, 1.2, and 1.3 can be used in the financial planning process. For example, students may want to alter their spending habits in light of the goals they have recorded on AS 1.3.

What are the steps in the financial planning process?

a) Make a list projecting the amount and source of money received weekly, biweekly, monthly, and yearly; take into account the difference between net and gross income.
b) List wants and needs in order to establish goals and objectives.
c) Compare the amount of money received to wants and needs.
    1) Establish short-, intermediate-, and long-term goals considering income.
    2) Balance income and spending so financial obligations and goals can be met.
d) Implement the plan.
    1) Determine how the money received is to be spent.
    2) Record how much money is actually spent.
    3) Track the amount of spending.
e) Monitor the plan and make adjustments if necessary.

4. Ask students how education and experience affect financial planning. Discuss how education and experience affect individual earning power.

How do education and experience affect a financial plan?

a) Education is both an expense (because of the costs of higher education) and an asset (because it may allow an individual to earn more money).
b) Experience generally increases the amount of money earned.

5. Discuss the importance of managing company resources. Have students complete the business expense report in AS 1.4.

Why is it important to manage company resources?

a) Company resources, which form a part of a business's own financial plan, may be given to employees to manage for business expenses. They should be kept separate from personal finances.
b) Proper management of company resources by employees helps the company reach financial goals, creates job stability, opens opportunities for advancement, and allows for increased earnings for employees.

F. Other Activities

Have students research the approximate cost of what they plan to do after high school. For example, students who plan on going to college can get information about the college they plan to attend. Have them include the cost of tuition, books, room and board, supplies, and estimated miscellaneous living expenses (laundry, entertainment, gas, etc.). Have them figure expenses per year, per month, and per week. Students planning to go to vocational school or junior college can make plans using the same type of information. Have students who plan to work explore approximate costs of housing and utilities in the area. Have them include the cost of furniture and appliances, food, transportation, insurance, and miscellaneous costs of living. Again, have them list costs per year, month, and week. Discuss with students the different ways of paying for school and other costs.

G. Conclusion

Understanding the financial planning process can help an individual reach his or her objectives and goals. A complete financial plan includes a listing of wants and needs and a plan for how to obtain them. Financial planning can help an individual obtain what they believe is important.

H. Answers to Activity Sheets

Answers to AS 1.1, 1.2, and 1.3 will vary.

AS 1.4

See the following page.

I. Answers to Evaluation

1. d
2. b
3. c

4. Education affects earning power. It can be both an expense (because of the costs of higher education) and an asset (because it may allow an individual to earn more money). An individual's experience affects earning power as well, since experience generally increases the amount earned.

5. Proper management of company resources by employees helps the company reach financial goals, creates job stability, opens opportunities for advancement, and allows for increased earnings for employees.

6. A financial plan reveals how much money is received, enables the planner to monitor spending, and can help an individual accomplish his or her goals.

Employee Expense Report

Name	Division	Period Ending
John Sayes	Sales	2-16-96

Purpose of Trip	Approved By	Departure Date	Return Date
Sales		2-12	2-15

1. MEALS AND ENTERTAINMENT

DATE	DAY	NUMBER		BREAKFAST		NUMBER		LUNCH		NUMBER		DINNER		TOTALS	
		EMP	GUESTS			EMP	GUESTS			EMP	GUESTS				
	SUNDAY														
2/12	MONDAY	1		4	44	1		5	53	1	1	16	78	26	75
2/13	TUESDAY	1		3	45	1	1	13	48	1		7	50	24	43
2/14	WEDNESDAY	1		2	94	1		5	70	1	1	16	00	24	64
2/15	THURSDAY	1		3	95	1	1	12	45	1		7	95	24	35
	FRIDAY														
	SATURDAY														
TOTALS				14	78			37	16			48	23	100	17

2. EMPLOYEE PAID TRANSPORTATION

DATE	TRAVEL MODE	FROM	TO	MILES	RATE	SUBTOTAL		TOLLS	AMOUNTS	
2/12	Car	Home office	Ames	233	21	48	93		48	93
2/13	Car	Ames	Delta	156	21	32	76		32	76
2/14	Car	Delta	Carson	109	21	22	89		22	89
2/15	Car	Carson	Home office	210	21	44	10		44	10
MILES THIS REPORT	708	CUMULATIVE MILES THIS YEAR		4.564		TOTAL			148	68

3. HOTEL

DATE	DAY	LOCATION	COST OF ROOM	OTHER	AMOUNTS	
	SUNDAY					
2/12	MONDAY	Ames	35.87		35	87
2/13	TUESDAY	Delta	38.94		38	94
2/14	WEDNESDAY	Carson	41.55		41	55
	THURSDAY					
	FRIDAY					
	SATURDAY					
				TOTAL	116	36

4. ALL OTHER EXPENSES

DATE			AMOUNTS	
2/12	Printer charge - business cards (500)		38	47
2/14	Repair of company laptop computer		69	45
		TOTAL	107	92

5. EMPLOYEE CASH RECORD

TOTAL EMPLOYEE EXPENSES THIS REPORT		473	13
LESS CASH ADVANCE		-	-
AMOUNT DUE	EMPLOYEE	473	13
	COMPANY		

UNIT III - FINANCIAL MANAGEMENT Name ______________________________

Lesson 1: Managing Financial Resources Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. A(n) ________________ is a statement of what an individual wants to accomplish personally and/or financially that gives direction to the use of financial resources.

   a. Objective
   b. Want
   c. Need
   d. Goal

2. In the financial planning process, which step follows implementing the financial plan?

   a. Establishing short-, intermediate-, and long-range goals.
   b. Monitoring the plan and making adjustments if necessary.
   c. Determining how much money is received.
   d. Indicating how much money is to be spent.

3. What is the first step in the financial planning process?

   a. Compare the amount of money received to wants and needs.
   b. List wants and needs and establish goals and objectives.
   c. Make a list of the source and amount of the money received.
   d. Monitor the plan and make adjustments when necessary.

Complete the following short answer questions.

4. What effect do education and experience have on a financial plan?

5. How does the proper management of company resources by individual employees affect a company?

6. What are three reasons that financial planning is important?

   a.

   b.

   c.

Lesson 1: Managing Financial Resources Name ______________________

Recording Money Received

Objective: Record money received as part of the process of financial planning.

Fill out the table below, recording the amount and source of money that you receive weekly, monthly, and yearly.

Source	Amount Received		
	Weekly	Monthly	Yearly
Ex. tax refund			$70.00
allowance	$15.00		

UNIT III - FINANCIAL MANAGEMENT AS 1.2

Lesson 1: Managing Financial Resources

Name ____________________

Monitoring Spending

Objective: Monitor spending as a part of the financial planning process.

Monitor your spending for one week by writing down your expenses. Make sure to include all expenses to gain an accurate picture of how much is spent.

Date	Clothing	Food	Entertainment	School Activities	Car	Insurance (per day)	Other
Totals							

Lesson 1: Managing Financial Resources

Name ______________________________

Setting Goals

Objective: Define short-, intermediate-, and long-term goals as part of the financial planning process.

Record your goals in the table below. You must differentiate between short-, intermediate- and long-term goals. Then estimate the cost of achieving each goal.

Short	Cost	Intermediate	Cost	Long	Cost
Total		Total		Total	

Lesson 1: Managing Financial Resources

Name ____________________________

Business Expense Report

Objective: Complete an expense report.

Read the information below and fill out the expense report on the back of this sheet.

John Sayles is a sales representative for the ABC Agricultural Supply Company. He has customers all over the state and travels four to five days per week; he has already traveled 3,856 miles this year. His company reimburses him for job-related expenses, including meals, mileage for his car (John gets paid .21 per mile for business use of his own vehicle), lodging, and entertainment for clients. John must fill out an expense report each week and turn it in for reimbursement. He likes to keep good records, so he notes his expenses in a log during the week and then fills the report out each Friday. John's expenses for this week are as follows:

Monday 2/12 - From home office to Ames
Breakfast: $3.84, $ .60 tip
Lunch: $4.78, $ .75 tip
Dinner: $6.94, $7.84 for business guest, $2.00 tip
Hotel expense: 35.87
Car odometer reading: Monday morning - 56,287 miles, Monday evening - 56,520 miles (all for business purposes)
Miscellaneous: Printer charge for 500 business cards - $38.47

Tuesday 2/13 - From Ames to Delta
Breakfast: $2.95, $ .50 tip
Lunch: $5.25, $6.48 for business guest, $1.75 tip
Dinner: $6.50, $1.00 tip
Hotel expense: $38.94
Car odometer reading: Tuesday morning - 56,520 miles, Tuesday evening - 56,701 miles (25 miles for personal use)

Wednesday 2/14 - From Delta to Carson
Breakfast: $2.44, $ .50 tip
Lunch: $4.95, $ .75 tip
Dinner: $6.75, $7.25 for business guest, $2.00 tip
Hotel expense: $41.55
Car odometer reading: Wednesday morning - 56,701 miles, Wednesday evening - 56,810 miles (all for business purposes)
Miscellaneous: Repair of company-owned laptop computer - $69.45

Thursday 2/15 - From Carson to home office
Breakfast: $3.45, $ .50 tip
Lunch: $4.50, $5.95 for business guest, $2.00 tip
Dinner: $6.95, $1.00 tip
Car odometer reading: Thursday morning - 56,810 miles, Thursday evening - 57,055 miles (35 miles for personal use)

Friday 2/16
Worked in office

Employee Expense Report

Name	Division	Period Ending

Purpose of Trip	Approved By	Departure Date	Return Date

1. MEALS AND ENTERTAINMENT

DATE	DAY	NUMBER		BREAKFAST	NUMBER		LUNCH	NUMBER		DINNER	TOTALS
		EMP	GUESTS		EMP	GUESTS		EMP	GUESTS		
	SUNDAY										
	MONDAY										
	TUESDAY										
	WEDNESDAY										
	THURSDAY										
	FRIDAY										
	SATURDAY										
TOTALS											

2. EMPLOYEE PAID TRANSPORTATION

DATE	TRAVEL MODE	FROM	TO	MILES	RATE	SUBTOTAL	TOLLS	AMOUNTS
MILES THIS REPORT			CUMULATIVE MILES THIS YEAR				TOTAL	

3. HOTEL

DATE	DAY	LOCATION	COST OF ROOM	OTHER	AMOUNTS
	SUNDAY				
	MONDAY				
	TUESDAY				
	WEDNESDAY				
	THURSDAY				
	FRIDAY				
	SATURDAY				
				TOTAL	

4. ALL OTHER EXPENSES

DATE			AMOUNTS
		TOTAL	

5. EMPLOYEE CASH RECORD

TOTAL EMPLOYEE EXPENSES THIS REPORT		
LESS CASH ADVANCE		
AMOUNT DUE	EMPLOYEE	
	COMPANY	

UNIT III - FINANCIAL MANAGEMENT

Lesson 2: Developing a Budget

Competency/Objective: Develop a budget.

Study Questions:

1. **Why is it important to have a personal budget?**
2. **How does the use of credit affect personal finances?**
3. **What are the financial implications of debt?**
4. **What are some general budgeting guidelines?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit III.
2. Activity Sheets
    a) AS 2.1: Preparing a Personal Budget
    b) AS 2.2: Making Budget Revisions
    c) AS 2.3: Your First-Job Budget
    d) AS 2.4: Checkbook Balancing

UNIT III - FINANCIAL MANAGEMENT

Lesson 2: Developing a Budget

TEACHING PROCEDURES

A. Review

Lesson 1 discussed the financial planning process, as well as the ways in which education and experience can improve an individual's ability to earn income and the importance of managing company resources efficiently. In this lesson, we will discuss how to prepare a budget. A budget is an important part of a financial plan because it helps monitor progress toward an individual's goals. In this lesson we will also begin discussing how the use of credit must be managed in financial planning.

B. Motivation

Ask the students if any of them have ever been on a budget. What would they do if they had $150 and knew that they would receive no more money for a month? Discuss how they would spend the $150. Explain to them that what they are doing is budgeting--planning the management of money during a specific period of time.

C. Assignment

D. Supervised Study

E. Discussion

1. Have students discuss why it is important to have a budget. Explain to them that a budget is simply a planning tool that enables them to monitor progress toward a financial goal. Using AS 2.1, have students prepare a budget using the personal information gathered in the previous lesson on money received, spending, and goals. Have the students complete AS 2.2, 2.3, and 2.4.

   Why is it important to have a personal budget?

   a) A budget provides a forecast of expenditures and income for a specific period of time.
   b) A budget can be used to monitor spending.
   c) A budget enables individuals, households, businesses, and governments to set priorities and monitor progress toward certain goals.
   d) A budget can help an individual meet unexpected expenses.

2. Ask students how buying on credit affects finances. Emphasize that credit must be used with caution.

   How does the use of credit affect personal finances?

   a) Credit is the transfer of money on promise of repayment at some future date.
   b) It must be taken into account in short-, intermediate-, and long-term financial management, because money must be paid back out of future income.
   c) Interest, which is the money paid on money that is invested or borrowed and usually consists of a percentage of the amount of money borrowed when using credit, must be included in the total cost of an item. Money may be saved by paying cash.
   d) If used wisely, credit can be used to purchase items needed immediately, which can then be paid for over a period of time.
   e) Credit also makes it possible to buy very expensive items for which it would be difficult to save enough money.

3. Ask students to list the financial implications of debt. Explain that credit is sometimes convenient to use but can also be expensive.

What are the financial implications of debt?

a) Debt may hamper future credit purchases.
b) It may create difficulty in paying for those things needed for survival.
c) An individual's wages may be garnisheed to pay for debts.
d) A debtor who cannot repay money borrowed may be forced to declare bankruptcy.
e) Going into debt to obtain an education creates the potential for a larger income in the future.
f) Being in debt and showing that they can make the necessary payments can make it easier for individuals to obtain credit later.

4. Ask students how much of their income should be spent on different expenses, such as housing, food, clothing, and savings. Discuss general budgetary guidelines.

What are some general budgeting guidelines?

Different standards may be applied when determining what percentage of monthly income should be spent on a particular expense, but some possibilities are listed below.
a) Housing - 20 to 30 percent
b) Utilities - 5 percent
c) Transportation - 5 to 15 percent
d) Food - 10 to 20 percent
e) Savings - 10 percent
f) Clothing - 5 to 10 percent
g) Entertainment - 5 percent
h) Installment debt - 5 percent and up

F. Other Activities

Invite a credit manager from a credit company to talk to the class.

G. Conclusion

Budgeting is an important part of financial planning. It helps individuals and families, businesses, and the government set spending priorities and then monitor progress. Credit, which is an obligation against future income, should be taken into account when formulating a budget. It is an important part of a financial plan; if managed properly, it allows an individual to purchase an item even if he or she does not have the money to pay for it immediately. However, credit should be used with caution because of the potential difficulties associated with going into debt.

H. Answers to Activity Sheets

AS 2.1

Answers will vary.

AS 2.2

Answers will vary. Jesse could use all but $5.00 of his savings and pay for the car, but this would almost wipe out his savings and leave nothing for future emergencies, as well as very little flexibility in his budget for the next period. He could also cut back on his entertainment budget and get the rest from savings.

The best plan (illustrated on the next page) would be to put off the purchase of the CD player until more money is available. If no unexpected expenses come up until after March and he works normal hours, he should have no problem buying the CD player. Using the revised budget, Jesse will have spent less than he earns, leaving $15.00 to be put into savings or to be used to purchase a CD player when the remaining amount is available.

PERSONAL BUDGET

BUDGET PERIOD: January 1 to January 31

INCOME:	
Wages (after taxes)	350.00
Allowance	40.00
Other Income	15.00
Total Income	$405.00
SAVINGS:	
Savings Account	$165.00
EXPENSES:	
Food	45.00
Clothing	20.00
Entertainment	25.00
Transportation	90.00
Insurance (per month)	45.00
Other expenses:	20.00 (miscellaneous) 145.00 (car repair)
Total Expenses	$390.00

AS 2.3

1. - 3. Answers to these questions will vary depending on the student's assigned income and personal preferences for spending.

4. Answers may include such things as household supplies, toiletries, items to decorate the home, etc.

AS 2.4

Item No.	Date	Transaction Description	Amount of Payment or Withdrawal		✓ T	Amount of Deposit or Interest		Balance	
								2466	85
1113	4/30	*Angela's Cards and Gifts*	24	65				24	65
		Birthday Gift						**2442**	**20**
1114	5/1	*Mehta Properties*	350	00				350	00
		Rent						**2092**	**20**
1115	5/5	*City of Anywhere*	43	25				43	25
		Utilities						**2048**	**95**
1116	5/5	*Any Telephone Company*	15	82				15	82
		Telephone Service						2033	13
1117	5/6	*Goode's Market*	65	13				65	13
		Groceries						**1968**	**00**
1118	5/8	*United Financial Services*	218	15				218	15
		Car Payment						**1749**	**85**
1119	5/9	*Mutual Shield Insurance*	315	00				315	00
		Car Insurance						1434	85
1120	5/12	*Smart Shoppe*	35	28				35	28
		Clothing						1399	57
1121	5/16	*Crown Pharmacy*	18	89				18	89
		Prescription						1380	68
1122	5/18	*Dollar Discount Store*	22	18				22	18
		Home Supplies						1358	50
1123	5/20	*Dillon's Shoes Store*	38	77				38	77
		Shoes						1319	73

I. Answers to Evaluation

1. c
2. b
3. c

4. Credit is the transfer of money on promise of repayment at some future date.

5. Interest is the money paid on money that is invested or borrowed and usually consists of a percentage of the amount of money borrowed when using credit.

6. Answers may include any two of the following: debt may hamper future credit purchases; it may create difficulty in paying for those things needed for survival; an individual's wages may be garnisheed to pay debts; and an individual who cannot pay off debts may be forced to declare bankruptcy.

UNIT III - FINANCIAL MANAGEMENT

Name ______________________________

Lesson 2: Developing a Budget

Date _______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following is not a characteristic of credit?

   a. Credit must be taken into account in short-, intermediate-, and long-term financial management, because money must be paid back out of future income.
   b. Interest on credit increases the total cost of an item, so money may be saved by paying cash instead of using credit.
   c. Credit provides a statement of expenditures over a specific period of time that helps control how money is spent.
   d. If used wisely, credit can be used to purchase items needed immediately, which can then be paid for over a period of time.

2. What is one reason it is important to have a personal budget?

   a. A budget helps plan how money is to be earned.
   b. A budget is a planning tool that enables individuals to set priorities and monitor progress toward goals.
   c. A budget ensures that the planned expenditure of money will never have to be postponed until a later time.
   d. A budget allows an individual to spend more money than is received.

3. Approximately what percentage of monthly income should be spent on housing, according to general budgetary guidelines?

   a. 5 to 10 percent
   b. 10 to 20 percent
   c. 20 to 30 percent
   d. 30 to 35 percent

Complete the following short answer questions.

4. What is credit?

5. What is interest?

6. What are two negative financial consequences of debt?

UNIT III - FINANCIAL MANAGEMENT AS 2.1

Lesson 2: Developing a Budget Name ______________________

Preparing a Personal Budget

Objective: Prepare a personal budget.

Prepare a budget for the next month showing your income and expenditures.

BUDGET PERIOD: ____________ to ____________

INCOME:

Wages (after taxes) $________
Allowance ________
Other Income:
________________ ________
________________ ________

Total Income $________

SAVINGS:

Savings Account $________
Other Savings:
________________ ________
________________ ________

Total Savings $________

EXPENSES:

Food $________
Clothing ________
Entertainment ________
Transportation ________
Insurance ________
Other Expenses:
________________ ________
________________ ________
________________ ________

Total Expenses $________

Lesson 2: Developing a Budget

Name ______________________________

Making Budget Revisions

Objective: Revise a budget to take into account unexpected expenses.

Read the information given below. Then revise the budget. Fill out the new budget on the back of this sheet.

Jesse is a junior in high school. For the past year, he has been using a budget to plan how to spend his income. His expenses are very similar each month, and through planning he has been able to save to purchase a car and has managed to put $150.00 away in a savings account. He has a part-time job after school. He works on the family farm as well, for which he gets paid an allowance. He also earns $15.00 one Saturday afternoon each month for helping a neighbor. After budgeting for his usual expenses for January, Jesse plans to use the extra money to buy a CD player he wants. He has already checked the price, and the player will cost him $160.00. With the purchase of the CD player, the planned budget works out with income equal to expenses, so Jesse decides to use the budget for his spending plan for January. A copy of his budget is shown below.

BUDGET PERIOD: January 1 to January 31

INCOME:	
Wages (after taxes)	350.00
Allowance	40.00
Other Income	15.00
Total Income	$405.00
SAVINGS:	
Savings Account	$150.00
EXPENSES:	
Food	45.00
Clothing	20.00
Entertainment	25.00
Transportation	90.00
Insurance (per month)	45.00
Other expenses:	
Miscellaneous	20.00
CD player	160.00
Total Expenses	$405.00

On the first day of his new budget, before Jesse spent any money, his car broke down. He found out that it was going to cost him $145.00 to have it repaired, and he needs the car to get back and forth to work. Jesse decides he must make some adjustments in his budget. He knows that he needs to keep in mind that February is a slow month for his employer and so he will make about $125.00 less next month than normal because he will be working fewer hours. How should Jesse adjust his budget? ______________________________

____

____

____

BUDGET PERIOD: ______________ to ____________

INCOME:

Wages (after taxes)	$________
Allowance	________
Other Income:	
____________________	________
____________________	________
Total Income	$________

SAVINGS:

Savings Account	$________
Total Savings	$________

EXPENSES:

Food	$________
Clothing	________
Entertainment	________
Transportation	________
Insurance (per month)	________
Other Expenses:	________
____________________	________
____________________	________
____________________	________
Total Expenses	$________

AS 2.3

Lesson 2: Developing a Budget

Name ______________________________

Your First-Job Budget

Objective: Project a personal budget to use after obtaining your first job.

Using the figures given below, prepare a budget on the form provided. Your instructor will assign you an hourly income for a 40-hour work week. Then answer the questions below.

Taxes: 20 percent of income

Savings: $500

Expenses:

Rent - 30 percent of net income
Utilities - 6 percent of net income
Food - 18 percent of net income
Clothing - 6 percent of net income
Transportation - 22 percent of net income
Insurance - 4 percent of net income
Entertainment - 4 percent of net income
Other expenses - 6 percent of net income

Questions

1. How much would you save each month?

2. How much would you pay for credit each month to buy the major items (such as furniture) needed to set up a household?

3. How much money would you make available for unexpected expenses such as car repairs?

4. What are some other expenses involved in setting up a household?

BUDGET PERIOD: ______________ to ____________

INCOME:	
Wages (after taxes)	$________
Other Income:	
____________________	________
____________________	________
Total Income	$________
SAVINGS:	
Savings Account	$________
Total Savings	$________
EXPENSES:	
Rent	$________
Utilities	________
Food	________
Clothing	________
Entertainment	________
Insurance	________
Transportation	________
Other Expenses:	
____________________	________
____________________	________
____________________	________
Total Expenses	$________

Lesson 2: Developing a Budget

Name ____________________

Checkbook Balancing

Objective: Balance a checkbook.

Below is a list of checks written by Jill Jackson. Record each check correctly in the check register provided. Compute the balance after each check is recorded.

1. May 1, 19-- Check No. 1114 for $350.00 to Mehta Properties for rent
2. May 5, 19-- Check No. 1115 for $43.25 to the City of Anywhere for utilities
3. May 5, 19-- Check No. 1116 for $15.82 to Any Telephone Company for telephone service
4. May 6, 19-- Check No. 1117 for $65.13 to Goode's Market for groceries
5. May 8, 19-- Check No. 1118 for $218.15 to United Financial Services for car payment
6. May 9, 19-- Check No. 1119 for $315.00 to Mutual Shield Insurance for car insurance
7. May 12, 19-- Check No. 1120 for $35.28 to Smart Shoppe for clothing
8. May 16, 19-- Check No. 1121 for $18.89 to Crown Pharmacy for prescription
9. May 18, 19-- Check No. 1122 for $22.18 to Dollar Discount Store for home supplies
10. May 20, 19-- Check No. 1123 for $38.77 to Dillon's Shoes Store for shoes

Item No.	Date	Transaction Description	Amount of Payment or Withdrawal		✓ T	Amount of Deposit or Interest		Balance	
								2466	85
1113	4/30	*Angela's Cards and Gifts*	24	65				24	65
		Birthday Gift						2442	20

UNIT III - FINANCIAL MANAGEMENT

Lesson 3: Credit

Competency/Objective: Describe the sources of credit and credit guidelines.

Study Questions

1. **What is an individual's credit history?**
2. **How does an individual establish a good credit history?**
3. **What are the kinds and sources of credit?**
4. **How is simple interest computed?**
5. **How is compound interest computed?**
6. **How are payments on amortized loans figured?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit III.
2. Transparency Master
    a) TM 3.1: Questions to Ask Before Using Credit
3. Activity Sheet
    a) AS 3.1: Planning Credit for Goals

Lesson 3: Credit

TEACHING PROCEDURES

A. Review

The last lesson discussed the role of the budget as a tool for financial management that helps plan expenditures of income and the use of credit. In this lesson, the sources of credit will be discussed in greater detail. Guidelines for establishing a good credit history will be discussed as well.

B. Motivation

Ask the students how many of them would like to buy a new car and how they would pay for it if they did. Explain to them that credit allows individuals to borrow money for their personal benefit. In order to get a loan, however, the borrower must show the lender evidence of ability to pay the money back. Ask the students how many of them have established some type of credit history that would show a lender that they are responsible enough to pay back a loan.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students to describe what a credit history is. Discuss how the proper management of finances can establish credit.

   What is an individual's credit history?

   a) A credit history is a record of how finances have been managed in the past.
   b) The ability of an individual to obtain credit is influenced by his or her credit history.

2. Ask students to describe how to establish a good credit history.

   How does an individual establish a good credit history?

   a) Managing checking and savings accounts responsibly
   b) Paying bills on time
   c) Using credit cards wisely
   d) Borrowing money and repaying the loan on schedule

3. Have students list the different kinds and sources of credit. Discuss why it is important to evaluate the different sources of credit to determine which source meets an individual's needs. On AS 3.1, have students record the type and source of credit that they might use to meet the goals that they established in Lesson 1 of this unit (refer back to AS 1.3). Remind students that credit should only be used when necessary, using TM 3.1 to illustrate guidelines for using credit.

   What are the kinds and sources of credit?

   a) Credit can be divided into two basic types based on the length of time the money is needed. The intended use of loans will help determine which type is chosen.
      1) Current credit - money borrowed for less than one year
         (a) Includes items purchased on credit cards

            (b) May include loans for medical bills or emergency loans for auto or home repairs
            (c) Usually paid back in monthly installments
        2) Noncurrent credit - money borrowed for more than one year
            (a) Includes credit used to buy a car or furniture or to pay for educational expenses
            (b) Used for buying a home or land or for purchasing or starting a business
            (c) Usually paid back in monthly installments
    b) Credit terms
        1) Secured loan - a loan in which the asset being purchased, or some other asset owned by the borrower, is put up as collateral to secure repayment of the money borrowed
        2) Unsecured loan, signature loan - a loan that does not require collateral and is based on a good credit history
        3) Repayment - Lump sum or periodic payments of principal and interest
    c) Credit may be received from several different sources; the amount, length, purpose, repayment schedule, and type of security needed will vary with the source of the credit.
        1) Commercial banks - offer short- and long-term credit for individuals and businesses that may be repaid in a single payment or in periodic payments of principal and interest. The loan can be for almost any use.
        2) Credit unions - cooperative associations that accept savings deposits and make small short- and long-term loans to members
        3) Savings and loans - originally set up for long-term credit used to buy homes. They provide credit for real estate
        4) The Small Business Administration - primarily guarantees short- and long-term credit for small businesses
        5) Manufacturers and dealers - primarily offer short- and long-term credit to customers for buying cars, furniture, or other products that the dealer or manufacturer sells
        6) Bank credit cards - plastic cards issued by a bank that offer short-term credit to buy goods and services, with billing taking place on a monthly basis

4. Ask students if they understand how interest is computed. Write sample problems on the board or overhead.

How is simple interest computed?

Simple interest (i) is calculated by multiplying the principal borrowed (p) by the rate of interest charged (r) and the amount of time (t), using the formula *i = prt.*

5. Ask students what compound interest is. Discuss how it is computed.

How is compound interest computed?

a) The formula for figuring compound interest is as follows:

$$A = p\left(1 + \frac{r}{x}\right)^{yx}$$

b) *A* is the amount of principal and interest, *p* is the principal, *r* is the yearly rate of interest, *y* is the number of years, and *x* is the number of times the interest is compounded yearly.

6. Discuss how payments on amortized loans are calculated.

How are payments on amortized loans figured?

a) Amortized loans are payed off in installments over time, with each payment covering the current interest and part of the principal.

b) Each payment is the same amount of money. Early payments include more interest and less capital. Interest payments decrease in later years as the outstanding principal decreases. More of the payment then goes to pay off the principal.

c) Lending institutions usually calculate payments on amortized loans using software designed for financial management.

d) Amortization tables can also be used as a quick reference for figuring payments. The principal is multiplied by the value from the table to calculate the annual payments.

F. Other Activities

Invite a representative from a local bank, credit union, or savings and loan to talk to the students. Have the representative discuss what a lender looks for before approving credit and the best way to build a good credit history.

G. Conclusion

Building a good credit history is an important part of financial planning. Establishing a good credit history by using credit wisely can help an individual reach his or her goals and objectives by helping to ensure that credit will be available when necessary. Since many kinds of credit are available from many sources, a person should evaluate them carefully to determine which best meets his or her needs.

H. Answers to Activity Sheets

AS 3.1

Answers will vary.

I. Answers to Evaluation

1. d
2. a
3. c
4. b
5. d

6. A credit history is a record of how finances have been managed in the past.

7. Current credit is money borrowed for less than one year, while noncurrent credit is money borrowed for more than one year. Answers may vary for examples of each type of credit. Examples of things for which current credit is used include items purchased on credit cards and loans for medical bills and auto and home repairs. Noncurrent credit could be money borrowed to buy a car, furniture, or appliances; to pay for educational expenses; to buy a home or land; or to purchase or start a business.

8. $A = p(1 + \frac{r}{x})^{yx}$

9. An individual can establish a good credit history by managing checking and savings accounts responsibly, paying bills on time, using credit cards wisely, and borrowing money and repaying the loan on schedule.

10. $112.50

UNIT III - FINANCIAL MANAGEMENT

Name ____________________________

Lesson 3: Credit

Date ____________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following sources of credit are cooperative associations that accept savings deposits and make small short- and long-term loans to members?

   a. Savings and loans
   b. Commercial banks
   c. Small Business Administration
   d. Credit unions

2. Which of the following sources of credit provides short- and long-term credit for individuals and businesses?

   a. Commercial banks
   b. Bank credit cards
   c. Savings and loans
   d. Small Business Administration

3. What type of credit do savings and loans provide?

   a. They make short- or long-term loans to members.
   b. They guarantee short- and long-term credit for small businesses.
   c. They provide long-term credit used to buy real estate.
   d. They offer short-term credit to buy goods and services.

4. Which of the following requires collateral to obtain money?

   a. Signature loan
   b. Secured loan
   c. Unsecured loan
   d. Credit cards

5. Which of the following statements about amortized loans is correct?

   a. Amortized loans are payed off in a lump sum.
   b. Each payment is a different amount of money.
   c. Early payments include more capital and less interest.
   d. Amortization tables can be used to figure payments.

Complete the following short answer questions.

6. What is a credit history?

7. How long is the period for repayment of current and noncurrent credit? Give an example of each type of credit.

8. What is the formula for figuring compound interest?

9. What are four things an individual can do to establish a good credit history?

   a.

   b.

   c.

   d.

10. What is the simple interest on $5,000 at 9 percent interest for three months?

Questions to Ask Before Using Credit

When considering whether or not to make a purchase using credit, ask yourself these questions:

- How much credit do I need?
- What is the interest rate that I will be paying?
- What will be the total amount of interest I will have to pay back?
- For how many months will I have to make payments, and how much will I have to pay?
- Do I have any other financial obligations during this time period, and will this loan affect my ability to repay them?
- Is collateral needed to secure credit?
- What will be the value of the item that I am buying when it is paid off?
- Will this purchase improve or damage my credit history?
- **CAN I AFFORD THIS WITHOUT DAMAGING MY BUDGET AND WIPING OUT MY SAVINGS?**

Lesson 3: Credit Name ______________________________

Planning Credit for Goals

Objective: Choose the appropriate type and source of credit to fulfill goals.

Fill out the table below, recording the type and source of credit that you use or will use to fulfill your goals as outlined in AS 1.3 in Lesson 1 of this unit.

GOALS	COST	METHOD OF PAYMENT (CASH OR CREDIT)	TYPE OF CREDIT (CURRENT OR NONCURRENT)	SOURCE OF CREDIT

UNIT III - FINANCIAL MANAGEMENT

Lesson 4: Developing a Savings and Investment Plan

Competency/Objective: Develop a savings and investment plan as part of a complete financial plan.

Study Questions

1. **What is the time value of money?**
2. **What is the Rule of 72?**
3. **Why is it important to save money?**
4. **What are the different ways of saving and investing money?**
5. **How does an individual develop a savings and investment plan?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit III.
2. Transparency Masters
    a) TM 4.1: A Penny Doubled
    b) TM 4.2: Future Value of an IRA
    c) TM 4.3: Risk Pyramid
3. Activity Sheet
    a) AS 4.1: Future Value of Money

UNIT III - FINANCIAL MANAGEMENT

Lesson 4: Developing a Savings and Investment Plan

TEACHING PROCEDURES

A. Review

The last lesson discussed the types and sources of credit and the need to build a good credit history to obtain credit. This lesson will cover the importance of developing a savings and investment plan. Investment is another way of earning money for future income in order to meet financial goals and objectives.

B. Motivation

Ask students to imagine that all of them have rich aunts who plan to give them some money. They are offered two choices. They may receive one million dollars immediately and one million more each month for eleven months, for a total of twelve million dollars. They may also receive one penny now, and the total amount accumulated will be doubled at the end of each month for thirty-six months. With the second option, at the end of one month they will each have two pennies, at the end of two months they will each have four pennies, at the end of three months they will each have eight pennies, etc. They have five seconds to make up their minds. Ask the students which offer they would choose. Use TM 4.1 to illustrate the situation. Discuss how a small amount of money can grow over time if a person develops a consistent habit of saving.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students to explain the time value of money. Discuss how interest increases the value of the money originally invested. Complete AS 4.1.

What is the time value of money?

a) The time value of money is the relationship of money, interest, and time.
b) The value of the money originally put in a savings account or invested may be increased through interest. Interest is the payment received by an individual for letting someone else use his or her money. The longer money is invested or the higher the interest rate earned, the greater the return.
    1) Simple interest - interest that is paid only on the sum of money loaned or invested
    2) Compound interest - interest paid not only on the amount loaned or invested but also on the accrued interest
c) The formula for calculating the future value of money enables an individual to determine the value of savings or investments in interest-bearing accounts after they have been compounded with interest for a specific period of time. In the formula, FV is the future value, *p* is the principal, *i* is the rate of interest, and *n* is the number of years of interest.

$$FV = p(1+i)^n$$

2. Ask students to explain the Rule of 72.

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What is the Rule of 72?

The Rule of 72 is a formula that provides an estimate of the number of years it would take for an investment to double in value. In the formula, *i* is the rate of interest and *y* is the number of years to double the investment.

$$\frac{72}{i} = y$$

3. Ask students why saving money is a vital part of financial planning. Discuss the importance of consistency in following a savings program. Point out that 10 percent of net income should be saved.

Why is it important to save money?

a) To reach goals and objectives by allocating money for the future
b) To meet emergencies, such as unexpected expenses or expenses for periods when no income is earned
c) To earn additional money through interest

4. Have students list the different ways of saving and investing money. Discuss how the amount of interest or return is related to risk.

What are the different ways of saving and investing money?

a) Saving
    1) Insured savings account - Insured savings accounts are available through banks, savings and loans, credit unions, and other financial institutions. An insured savings account can be started with a small amount of money, where it can earn interest and be readily available if needed for an emergency or other investments. Interest rates are lower than with other methods of saving, but deposits under $100,000 are insured by the government.
    2) Certificates of deposit - Certificates of deposit are also available through banks and some other financial institutions. They are issued for different amounts and for different lengths of time. Money invested in certificates of deposit is not as readily available as money invested in savings accounts, but it earns higher interest rates: the longer the period of time, the higher the interest rate. Certificates of deposit are insured by the government.
    3) Annuities - An annuity is very similar to a certificate of deposit but is issued by an insurance company rather than a bank. They almost always pay higher interest than CDs. A penalty is assessed for early withdrawl of the money invested.
    4) U.S. savings bonds - Savings bonds are available through most financial institutions. Many companies also offer payroll deductible plans. The bond is purchased at an amount less than face value and grows to the face value at the maturity date specified on the bond. Interest rates are lower than those of other bonds, but money is guaranteed by the government.
b) Investing
    1) Treasury bonds - Treasury bonds are issued by the U.S. Treasury Department. They are available in amounts from $1,000 to $1 million and mature after periods of 30 days up to 5 years. Treasury bonds fluctuate in value but generally have better interest rates than savings accounts or savings bonds: the longer the time to maturity, the greater the interest rate.
    2) Bonds - Bonds are issued through corporations and local governments. A bond is a certificate of debt that promises payment of interest on a specified date and payment of the original investment upon maturity. The interest earned is higher than that of

savings accounts or savings bonds, but bonds are more risky, because they are dependent on the financial well-being of the issuer.

3) Mutual funds - Mutual funds are professionally managed diversified investments in several different companies. They allow individual investors to pool their money to meet various investment objectives. Mutual funds are listed in many newspapers. The price listed is the cost of one share of the fund. The amount that the share increases or decreases from the original purchase price is the amount gained or lost on the investment. Earnings are not guaranteed.

4) Futures - Futures contracts are contracts for the purchase and sale of commodities for future delivery that are traded on the commodities exchanges. Speculators may not make a profit and may even lose their original investment.

5) Stock - Stocks represent shares of ownership in a company. The price of the share may increase or decrease, depending on the success of the company. Stocks are traded on the New York Stock Exchange and the American Stock Exchange.

5. Ask students how they would develop a savings and investment plan as a part of their financial plan.

How does an individual develop a savings and investment plan?

a) Open an insured savings account.
b) As the amount of money saved increases, diversify.
    1) Diversification is the reduction of risk through the spreading of money among several different types of savings and investments.
    2) Some money remains in savings and is available for emergencies.
c) Money can also be diversified by investing in mutual funds.
    1) Dividends are usually automatically reinvested in the fund.
    2) A ready market for selling mutual funds exists if the money is needed for an emergency.

F. Other Activities

1. Invite a representative from the local bank to talk about insured savings accounts, certificates of deposit, bonds, and mutual funds. Discuss the different interest rates earned by each type of investment. Discuss earnings on mutual funds.

2. Invite a financial planner to talk to the class about investment plans. Have him or her discuss how to get started investing and the risk factors of investments.

3. Have students look up current values for stocks and commodities on the Internet.

G. Conclusion

The time value of money is an important concept in developing a savings and investment plan. A dollar received today is not equal to a dollar received in the future, because today's dollar can be invested to produce interest or a positive return in excess of the original dollar. Consistent saving is essential to a successful financial plan, because it allocates money to achieve future goals, provides a fund for emergencies, and increases income through interest. An investment plan can start with a savings account and build gradually into a diversified investment program that takes advantage of the many alternatives for saving and investing.

H. Answers to Activity Sheet

1. $1,102.50, $1,276.28
2. $7,346.64, $10,794.62

I. Answers to Evaluation

1. d
2. c
3. a
4. d
5. b
6. a

7. Diversification is the reduction of risk through the spreading of money among several different types of savings and investments.

8. The three reasons for saving money are to reach goals and objectives by allocating money for the future, to meet emergencies, such as unexpected expenses or expenses for periods when no income is earned, and to earn additional money through interest.

9. FV = $220.50
10. FV = $3,276.99
11. y = 9.6 years

UNIT III - FINANCIAL MANAGEMENT Name ______________________

Lesson 4: Developing a Savings and Investment Plan Date ______________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What is the second step in developing a savings and investment plan?

   a. Selling mutual funds
   b. Opening an insured savings account
   c. Cashing in certificates of deposit
   d. Diversifying investments

2. What are mutual funds?

   a. Certificates issued by the U.S. Treasury Department
   b. Shares of ownership in a company
   c. Shares in diversified investments
   d. Certificates issued by banks

3. Which of the following involves the least risk of loss?

   a. U.S. savings bonds
   b. Mutual funds
   c. U.S. treasury bonds
   d. Stock

4. The relationship of money, interest, and time is referred to as the ______________________.

   a. Savings and investment plan
   b. Dividend
   c. Principal
   d. Time value of money

5. What is interest?

   a. The amount paid by an individual for letting someone use his or her money
   b. The amount received by an individual for letting someone use his or her money
   c. The sum of money placed in a savings account
   d. The sum of money received after selling a share of stock

6. What is stock?

   a. Shares of ownership in a company
   b. Certificates insured by the government
   c. Certificates issued by the government
   d. Shares in diversified investments

Complete the following short answer questions.

7. What is diversification?

8. What are three reasons for saving money?

   a.

   b.

   c.

Calculate the future value of money for the following problems. Remember to convert percentages to decimals.

9. What will the future value of $200 be in two years with an interest rate of five percent?

10. What will the future value of $2,500 be in four years with an interest rate of seven percent?

Use the Rule of 72 to answer the question below.

11. How long would it take an investment to double if the interest rate was 7.5 percent?

A Penny Doubled

MONTH	BEGINNING VALUE	TOTAL ACCRUAL
1	.01	.02
2	.02	.04
3	.04	.08
4	.08	.16
5	.16	.32
6	.32	.64
7	.64	$1.28
8	$1.28	$2.56
9	$2.56	$5.12
10	$5.12	$10.24
11	$10.24	$20.48
12	$20.48	$41.00*
13	$41.00	$82.00
14	$82.00	$164.00
15	$164.00	$328.00
16	$328.00	$656.00
17	$656.00	$1,312.00
18	$1,312.00	$2,624.00
19	$2,624.00	$5,248.00
20	$5,248.00	$10,496.00
21	$10,496.00	$20,992.00
22	$20,992.00	$41,984.00
23	$41,984.00	$83,968.00
24	$83,968.00	$167,936.00
25	$167,936.00	$335,872.00

TM 4.1 continued

26	$335,872.00	$671,744.00
27	$671,744.00	$1,343,488.00
28	$1,343,488.00	$2,686,976.00
29	$2,686,976.00	$5,373,952.00
30	$5,373,952.00	$10,747,904.00
31	$10,747,904.00	$21,495,808.00
32	$21,495,808.00	$42,991,616.00
33	$42,991,616.00	$85,983,232.00
34	$85,983,232.00	$171,966,464.00
35	$171,966,464.00	$343,932,928.00
36	$343,932,928.00	$687,865,856.00

Total after 36 months =

$687,865,856

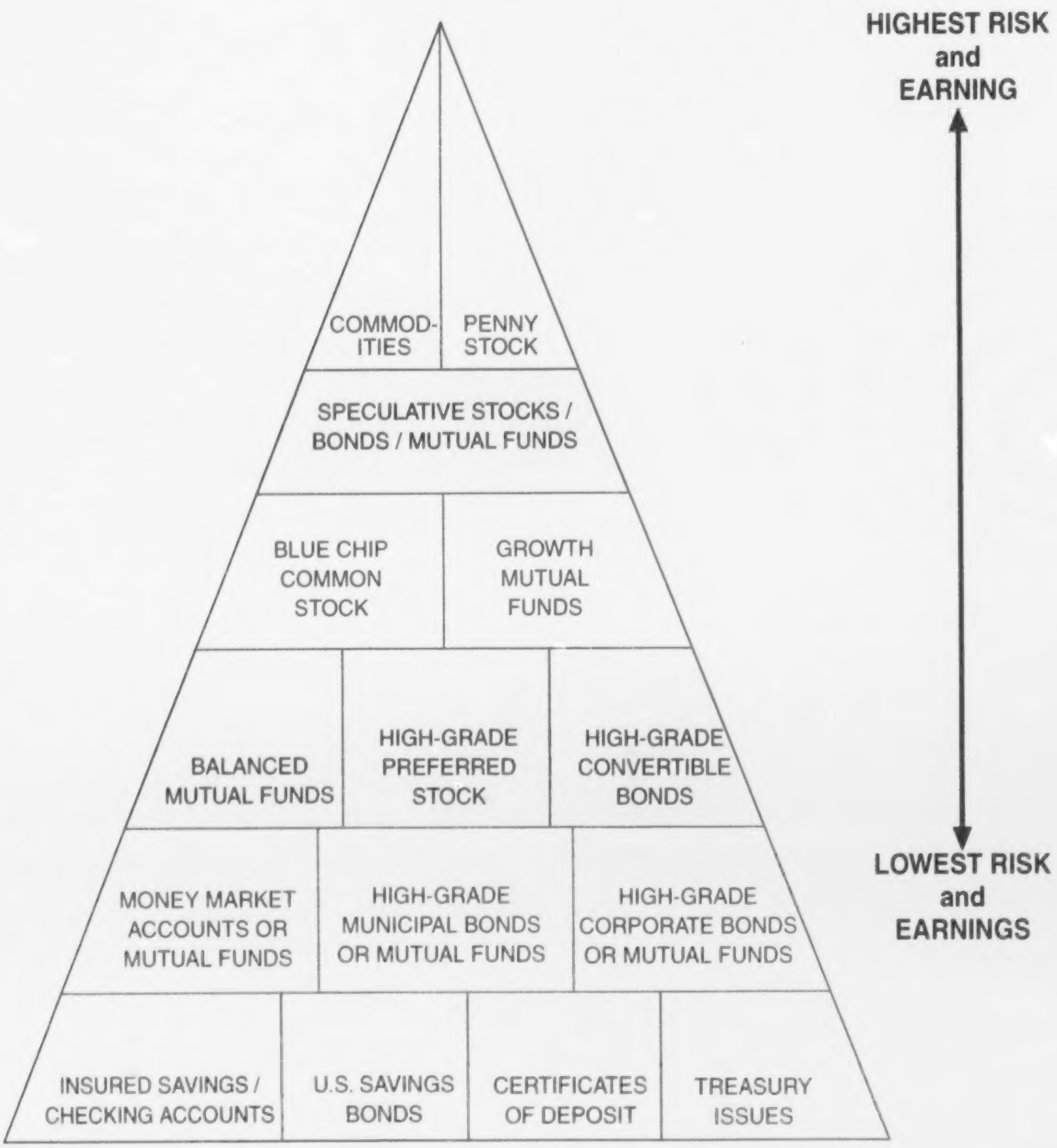
* Numbers have been rounded to the nearest dollar.

Future Value of an IRA

This table shows earnings on an IRA with an annual contribution of $500.00 and 6% interest compounded daily.

	Age When Initial Investment Is Made						
	25	30	35	40	45	50	55
Age 60	$61,520.25	$43,351.25	$29,890.75	$19,919.00	$12,531.25	$7,058.25	$3,003.75
Age 65	$86,045.50	$61,520.25	$43,351.25	$29,890.75	$19,919.00	$12,531.25	$7,058.25
Age 70	$119,150.25	$86,045.50	$61,520.25	$43,351.25	$29,890.75	$19,919.00	$12,531.25

Risk Pyramid



HIGHEST RISK
and
EARNING

COMMOD-ITIES | PENNY STOCK

SPECULATIVE STOCKS / BONDS / MUTUAL FUNDS

BLUE CHIP COMMON STOCK | GROWTH MUTUAL FUNDS

BALANCED MUTUAL FUNDS | HIGH-GRADE PREFERRED STOCK | HIGH-GRADE CONVERTIBLE BONDS

MONEY MARKET ACCOUNTS OR MUTUAL FUNDS | HIGH-GRADE MUNICIPAL BONDS OR MUTUAL FUNDS | HIGH-GRADE CORPORATE BONDS OR MUTUAL FUNDS

INSURED SAVINGS / CHECKING ACCOUNTS | U.S. SAVINGS BONDS | CERTIFICATES OF DEPOSIT | TREASURY ISSUES

LOWEST RISK
and
EARNINGS

Lesson 4: Developing a Savings and Investment Plan Name ______________________________

Future Value of Money

Objective: Calculate the value of money over time.

Using the formula for the future value of money, calculate the value of money over time for the problems below. Remember to convert percentages to decimals.

1. If $1,000 was deposited in a savings account that earned five percent interest, what would the future value be in two years?

   What would the future value be in five years?

2. In five years, what would the future value be of a $5,000 certificate of deposit earning eight percent interest?

   What would the future value be in ten years?

UNIT IV - PERSONAL DEVELOPMENT

Lesson 1: Developing a Positive Work Attitude

Competency/Objective: Describe how to develop a positive work attitude.

Study Questions

1. **What is a positive work attitude?**
2. **Why is a positive work attitude necessary?**
3. **How can a positive work attitude be achieved?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IV.
2. Transparency Master
    a) TM 1.1: "Be" Attitudes
3. Activity Sheet
    b) AS 1.1: Identifying Positive Work Attitudes

UNIT IV - PERSONAL DEVELOPMENT

Lesson 1: Developing a Positive Work Attitude

TEACHING PROCEDURES

A. Introduction

In order to succeed in a career, an individual must develop his or her personal capabilities. Personal development includes developing a positive work attitude, developing interpersonal relationships in the workplace, taking criticism, and behaving ethically. This lesson will discuss how an employee can develop a positive work attitude.

B. Motivation

Ask students if any of them are having, or have recently had, a "bad" day. Have an open discussion about ways that they could have made the day better. Talk about how one person's bad mood or attitude affects other people. Discuss the effect of a bad attitude on the workplace.

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss the qualities that form a positive work attitude. Refer to TM 1.1. Have students complete AS 1.1.

What is a positive work attitude?

A positive work attitude is revealed through a combination of traits that are displayed in the workplace.

a) Confidence - Believing in self and others
b) Self-starter - Working with minimum supervision, using all opportunities to learn more about job responsibilities, and taking on more responsibility
c) Cooperation - Following job rules and regulations, considering the ideas of others, and helping others
d) Courtesy - Being polite to other people in the workplace, showing respect to others, speaking with a pleasant voice, and expressing appreciation for their time and effort
e) Dependability - Following instructions, being punctual and consistent in attendance, and completing tasks on time
f) Honesty - Being truthful when giving information, keeping promises, handling company money wisely, and not wasting time on the job
g) Flexibility - Learning new procedures and information and cheerfully accepting change
h) Enthusiasm - Spreading fellowship and pride throughout an organization through enthusiastic behavior

2. Ask students to explain the importance of having a positive work attitude. Discuss situations where having a positive attitude can change the way problems are handled.

Why is a positive work attitude necessary?

A positive work attitude creates an opportunity for advancement and success in a career, because it helps an employee appreciate his or her job and want to add to his or her knowledge and skills.

He or she is thus a valuable asset in terms of both performance and attitude, which is likely to spread to others.

3. Discuss with students how a person can develop a positive attitude.

How can a positive work attitude be achieved?

a) Find people in the workplace who have a positive attitude, and observe and imitate that attitude.
b) Try to build self-confidence.
c) Work on improving the traits and behaviors associated with a positive work attitude, especially enthusiasm.

F. Other Activities

Have an open class discussion about different problems in the workplace that students have experienced or that may occur. Ask specifically about situations in which a positive attitude toward the situation could have made it better.

G. Conclusion

A positive work attitude is necessary for happiness and success in the workplace. Being confident, a self-starter, cooperative, courteous, dependable, honest, flexible, and enthusiastic are all traits associated with a positive attitude.

H. Answers to Activity Sheet

AS 1.1

Answers will vary. Suggested responses are outlined below.

1. Ryan does not have to defend the changes. However, he should display a positive attitude by suggesting that everyone should do the best they can to make the changes work. Ryan should stress that each employee needs to do whatever he or she can to make sure that the business runs smoothly.

2. Jan should not bring up the problem in the meeting. Instead, she should discuss it privately with Ana. Jan should make every effort not to embarrass the new district sales manager. She should simply bring it up as a possible problem that Ana may want to take into consideration and then explain why she thinks it may be problematic based on past or present experience. The exploration of the problem should be approached as a joint venture between the two of them, with Jan as a concerned employee who is committed to preventing difficulties.

I. Answers to Evaluation

1. c
2. b
3. d
4. d

5. A positive work attitude creates an opportunity for advancement and success in a career, because it helps an employee appreciate his or her job and want to add to his or her knowledge and skills. He or she is thus a valuable asset in terms of both performance and attitude, which is likely to spread to others.

6. A positive work attitude can be developed by finding people in the workplace who have a positive attitude and observing and imitating them, trying to build self-confidence, and working on improving the traits and behaviors associated with a positive work attitude.

UNIT IV - PERSONAL DEVELOPMENT Name ______________________________

Lesson 1: Developing a Positive Work Attitude Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which trait is the sum of all the other traits of a positive work attitude?

    a. Flexibility
    b. Courtesy
    c. Enthusiasm
    d. Cooperation

2. Being a self-starter involves all of the following except:

    a. Working with minimum supervision.
    b. Being flexible when working with others.
    c. Learning more about job responsibilities.
    d. Taking on more responsibilities.

3. Completing work assignments on time is a sign of ____________________ .

    a. Cooperation
    b. Confidence
    c. Honesty
    d. Dependability

4. Honesty involves:

    a. Being blunt when discussing the shortcomings of others.
    b. Following rules and regulations.
    c. Expressing anger when problems occur.
    d. Being truthful when giving information.

Complete the following short answer questions.

5. Why is it important to have a positive work attitude?

6. How can a positive work attitude be developed?

"Be" Attitudes

Be Confident

Be a Self Starter

Be Cooperative

Be Courteous

Be Dependable

Be Honest

Be Flexible

Be Enthusiastic

Lesson 1: Developing a Positive Work Attitude Name ______________________________

Identifying Positive Work Attitudes

Objective: Identify how aspects of a positive work attitude can be applied to various work-related situations.

Read the scenario described in each problem. Identify how a person with a positive work attitude would respond in each situation.

1. XYZ Unlimited is making some major changes in production. It is the day before the changes are to take effect. Several employees are discussing them in the break room, complaining about the new production methods. They ask Ryan's opinion about the changes.

   How should Ryan respond?

2. Jan is attending a sales meeting. Ana, the new district sales manager, is explaining the modifications she has made to the sales plan for the district. Jan had been up for the promotion to district sales manager, but Ana was selected for the position instead. Listening to the plan, Jan sees a potential problem that Ana has not considered. The problem could cause Ana's plan to fail.

   How should Jan handle this situation?

UNIT IV - PERSONAL DEVELOPMENT

Lesson 2: Positive Workplace Relationships

Competency/Objective: Describe how to develop positive workplace relationships.

Study Questions

1. **How can an employee maintain a positive work relationship with his or her boss?**
2. **How can a positive relationship with coworkers be maintained?**
3. **How does an employee work as a team member?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1996, Unit IV.
2. Transparency Master
    a) TM 2.1: Possible Lines of Authority
3. Activity Sheet
    a) AS 2.1: Maintaining Postive Workplace Relationships

Lesson 2: Positive Workplace Relationships

TEACHING PROCEDURES

A. Review

In Lesson 1, the importance of developing a positive work attitude was discussed. A positive work attitude is reflected in the employee's behavior in the workplace and consists of a combination of many positive traits. Ideally, a positive attitude becomes a state of mind. Lesson 2 will discuss how to develop a positive work relationship with both superiors and coworkers. Even though each person may work individually when he or she is completing one part of a task, that person must be able to work as a part of a team so that each task can be combined into a unified effort to meet the goals of the business.

B. Motivation

Ask students how many of them have been involved in a team sport. Discuss how team sports combine both individual and team efforts. For example, a quarterback on a football team relies on the receiver to catch a pass in order to move closer to the goal and complete the task of scoring a touchdown. The quarterback also relies on other teammates to defend him so that he has time to throw the ball. The coach helps each team member become better at their tasks and coordinates each individual's effort to achieve the unified goal of winning the game. Compare team sports to working as a team on the job.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students how an employee can maintain a positive work relationship with his or her boss. Discuss the importance of understanding the lines of authority and the chain of command. Use AS 2.1 to illustrate lines of authority.

   How can an employee maintain a positive work relationship with his or her boss?

   a) By remembering that the boss's job is to help others achieve the purpose of the organization
   b) By realizing that in order to combine all necessary tasks the organization must have an orderly system
      1) Respecting and following the lines of authority or chain of command
      2) Following all rules and regulations
      3) Showing up for work on time and not resisting changes
      4) Completing tasks correctly
      5) Being a problem solver
   c) By communicating properly with the boss when problems arise
      1) Communicating in terms of what can be observed or measured rather than in terms of personal attitudes or feelings
      2) Expressing desired outcomes rather than complaining
      3) Giving honest and complete information

2. Discuss the importance of developing and maintaining a positive relationship with coworkers. Ask students how a positive relationship can be maintained.

How can a positive relationship with coworkers be maintained?

- a) By doing your share of the work
- b) By treating others considerately
    - 1) Respect the fact that coworkers will have differences and tolerate those differences.
    - 2) Try to understand and accept other perspectives when disagreements occur.
    - 3) Make compromises to resolve disagreements.

3. Discuss how an employee can be a team member. Emphasize the importance of working as a member of a team. Provide an example from business, such as how workers in manufacturing rely on other people to complete different parts of a product, on sales people to sell the product, and on others to distribute the product that has been sold to the customer. TM 2.2 can be used to illustrate the concept of teamwork. Divide the class into groups and have students complete AS 2.1. Discuss the answers to the activity sheet.

How does an employee work as a team member?

- a) Workers need to understand even though people have differences, they must form a team to produce a product or offer a service, since individual effort is useless without the efforts of others on the team.
- b) Successful team members share several important traits.
    - 1) They work hard to do their part to contribute to the success of the team. They strive for excellence even when a task seems unpleasant.
    - 2) They share their ideas with others if they believe that they will help the team to be successful.
    - 3) They concentrate on finding solutions to problems facing the team rather than on the problems themselves. Focusing on the problem may simply contribute to it.
    - 4) They accept the decisions made by others, whether the decision is made by the team as a whole or by a manager.
    - 5) They take interest in what the other members of the team are doing. They provide encouragement and praise for their efforts.
    - 6) When the team succeeds, they take personal pride in that success. When the team is not successful, good team members are willing to take responsibility for their actions if they have contributed to the problem.

F. Other Activities

Have an open discussion in which students consider how they might handle problems that occur in the workplace. For example, present students with a situation in which they are being discriminated against and have them come up with a solution or solutions for dealing with the problem.

G. Conclusion

A team member understands that individual efforts are combined with the efforts of others to achieve a unified goal. Maintaining a positive relationship with superiors and other employees is an important part of reaching that goal.

H. Answers to Activity Sheets

AS 2.1

Answers will vary.

I. Answers to Evaluation

1. a
2. b
3. d

4. Communicating in terms of what can be observed or measured rather than in terms of personal attitudes or feelings, expressing desired outcomes rather than complaining, giving honest and complete information

5. Teamwork is important because workers must form a team to produce a product or offer a service, since individual effort is useless without the efforts of others on the team.

UNIT IV - PERSONAL DEVELOPMENT Name ______________________________

Lesson 2: Positive Workplace Relationships Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What is one thing that should be done to maintain a positive relationship with coworkers?

    a. Treat others within the business organization considerately.
    b. Follow established lines of authority in the business organization.
    c. Communicate problems to superiors without complaining.
    d. Discriminate against other employees of the business.

2. Which of the following is not a part of maintaining a positive relationship with one's boss?

    a. Communicating properly with the boss when problems arise within the organization
    b. Discussing personal attitudes and feelings when bringing problems to his or her attention
    c. Remembering that the boss's job is to help others achieve the purpose of the organization
    d. Realizing that to combine all the necessary tasks the organization must have an orderly system

3. What is one trait of successful team members?

    a. They share their ideas with others only when asked to contribute.
    b. They focus their attention on the problems facing the team.
    c. They ignore decisions that they feel will hurt the team.
    d. They take interest in what other members of the team are doing.

Complete the following short answer questions.

4. What are three important aspects of communicating well with the boss when problems arise?

    a.

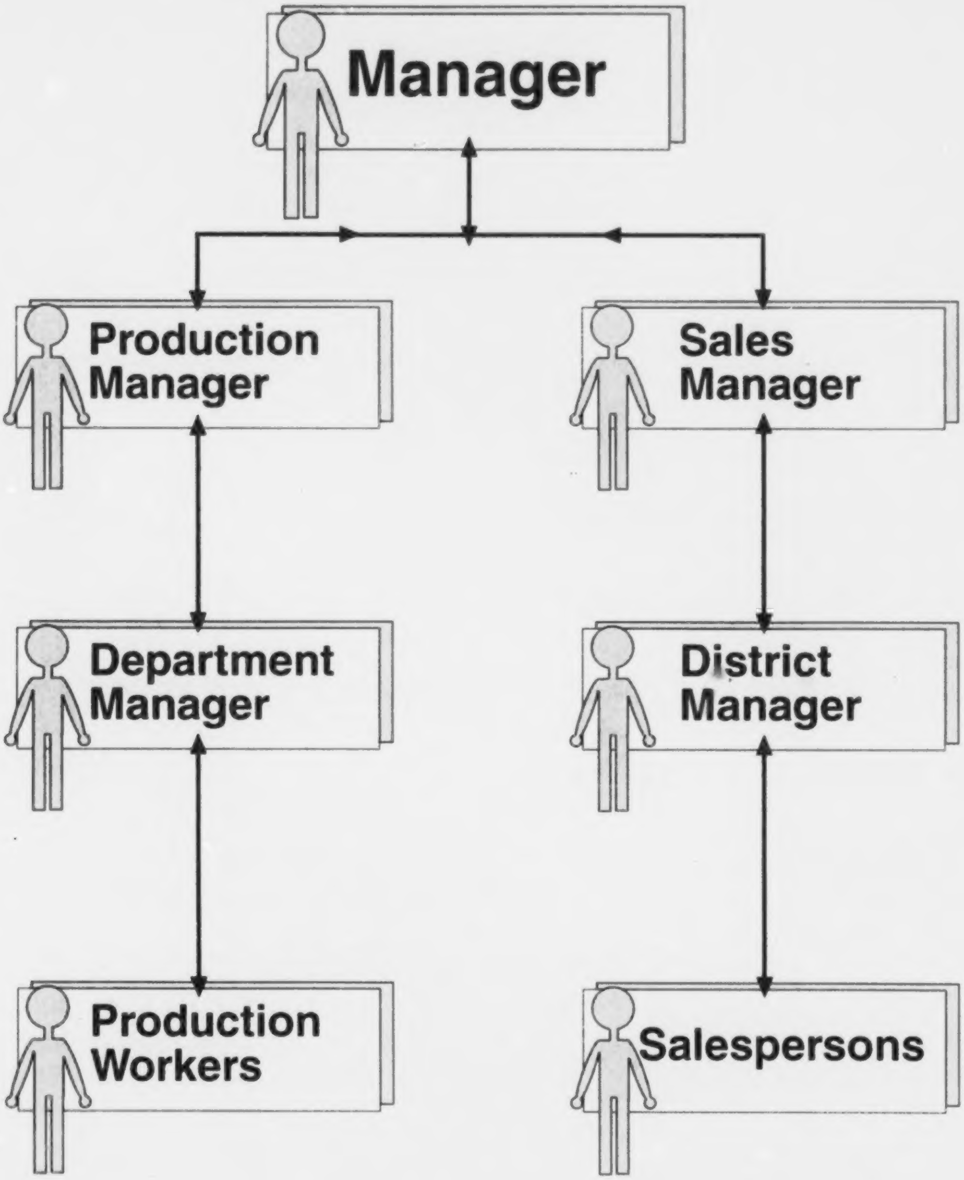
    b.

    c.

5. Why is teamwork important in producing a product or offering a service?

TM 2.1

Possible Lines of Authority



Manager

Production Manager

Sales Manager

Department Manager

District Manager

Production Workers

Salespersons

Name ______________________________

Maintaining Postive Workplace Relationships

Objective: Describe ways to maintain a positive workplace relationship with a difficult coworker.

Working in groups assigned by your teacher, describe how the situations outlined in the problems below could be handled while maintaining postive workplace relationships. Be prepared to discuss your answers.

1. A coworker does not pay attention to directions and is constantly making mistakes. These mistakes affect the entire business, decreasing productivity and efficiency.

2. A coworker is not properly handling customer complaints and is being rude to them as well. The result is a loss in future sales and poor public relations.

Lesson 3: Criticism

Competency/Objective: Describe how to receive and give criticism.

Study Questions

1. **What are the types of criticism?**
2. **Why is constructive criticism valuable?**
3. **How should criticism be received by an employee?**
4. **How should criticism be given?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IV.
2. Transparency Masters
    a) TM 3.1: Receiving Criticism
    b) TM 3.2: Giving Criticism
3. Activity Sheet
    a) AS 3.1: Handling Criticism

Lesson 3: Criticism

TEACHING PROCEDURES

A. Review

Lesson 2 discussed positive workplace relationships. While an individual completes his or her own individual tasks, he or she must also be a team member in order to complete the work of the organization. Part of acting as a team is maintaining a positive relationship with superiors and coworkers. One way to preserve good working relationships is to learn to give and take criticism well. Lesson 3 is about criticism. If given and taken correctly, criticism can be a valuable tool for both workers and managers.

B. Motivation

Discuss the importance of being able to give and take criticism well. Demonstrate the difference between constructive and nonconstructive criticism.

Nonconstructive criticism:

Employee: "I'm sorry I didn't complete the project the right way. I though I was doing the procedure correctly, but I guess I don't understand it."

Supervisor: "Are you serious? You mean you don't understand how to do this? I just can't believe it. You better learn how to do it right the next time." (Walks off.)

Employee: "How am I supposed to learn? I don't know what I was doing wrong!"

Constructive criticism:

Employee: "I'm sorry I didn't complete the project the right way. I though I was doing the procedure correctly, but I guess I don't understand it."

Supervisor: "It will help you if you do it this way." (Supervisor gives instructions and demonstrates the correct procedure.) "Now you try it." (Employee attempts to duplicate the procedure.) "Not bad, but you did leave out one step." (Supervisor repeats the procedure, putting emphasis on the step that was left out). "Now try it again." (Employee again attempts to duplicate the procedure.) "That was a good try. The first two steps were good, but you need a little more practice on the last one."

Employee: "I think I can complete the job correctly now with some practice. Thanks for showing me what I was doing wrong."

Present other situations in which a person uses nonconstructive criticism. Ask the class how the criticism could be stated in a constructive manner.

C. Assignment

D. Supervised Study

E. Discussion

1. Have students describe criticism that they have heard. Discuss which of the two types of criticism their examples are.

What are the types of criticism?

a) Nonconstructive criticism--only identifies a problem; it does not offer a solution
b) Constructive criticism--identifies a problem and gives instructions for solving the problem

2. Discuss the value of constructive criticism with students.

Why is constructive criticism valuable?

a) Allows a business to meet its goals of operating productively and efficiently
b) Helps an employee improve his or her job performance
c) Improves employee morale

3. Ask students to explain some positive ways to respond to criticism.

How should criticism be received by an employee?

a) Control your response.
    1) Listen carefully to the message being given.
    2) Show respect for the boss.
    3) Listen closely to understand the problem and the instructions for correcting it.
    4) Do not make excuses or be offended.
    5) Make plans to correct the problem.
b) Learn how to take instructions from others.
    1) Listen closely in order to understand instructions.
    2) Ask questions when information is unclear.
    3) Use the instructions to complete the task correctly.
    4) Ask for help when needed to complete the task.
c) Turn nonconstructive criticism into constructive criticism.
    1) Meet nonconstructive criticism with a positive attitude.
    2) Assure the person giving the criticism that a commitment to doing better exists.
    3) Ask questions about how to resolve the problem.
    4) If no instructions are given, find out what has to be done to solve the problem.

4. Ask students how many of them have had other people react negatively to their own criticism. Discuss how to criticize others properly.

How should criticism be given?

a) Approach giving criticism with the proper attitude; be calm, courteous, and fair.
b) Follow guidelines for giving criticism.
    1) Mention only the things the person can correct.
    2) Be clear about what is to be corrected.
    3) Emphasize the benefits of the criticism.
    4) Pick the right setting and time.
    5) Criticize the problem and not the person.
    6) Mention things that the person does correctly.
    7) Speak in a positive tone.
    8) Demonstrate confidence in the person's ability to correct the problem.
    9) Look for signs that show that the listener is responding positively.
c) To criticize constructively, a person must know how to give instructions.
    1) Understand the problem and be able to visualize the steps needed to correct it.
    2) Summarize the steps of the corrective procedure, explaining them clearly.
    3) Repeat or demonstrate the steps when necessary.
    4) Ask the listener if he or she has any questions.
    5) Review the procedure by allowing the listener to talk through or demonstrate the task.

F. Other Activities

1. Have students role play different situations in which one student is not constructively criticizing another student. Then have a discussion with the entire class about how the situation could be handled differently.

2. Have an open discussion with the class about situations in which students believe they were not criticized constructively. Discuss how the situations may have been handled differently.

G. Conclusion

A person who cannot give constructive criticism limits his or her own ability to instruct others, and a person who cannot take constructive criticism is limited to his or her own ideas and insights. Everyone should therefore be committed to improving his or her ability to give and take criticism.

H. Answers to Activity Sheets

AS 3.1

1. After the meeting, Joe should ask his boss for some private time to discuss the situation with her. During the discussion, he needs to assure his boss that he is very sorry about the entire situation. Joe should explain to Ms. Jameson, without making any excuses, that he is committed to not letting something like this ever happen again. He then needs to ask her to explain the proper procedure for handling returns.

2. Answers may include any of the following points.

   - Ms. Jameson should have had a private conversation with Joe rather than criticizing him in front of others.
   - She should have waited until she was calm rather than irritated and should have spoken in a positive tone.
   - Ms. Jameson should not have discussed the increase in sales expenses at the same time, because Joe is not responsible for the entire problem. Rather, she should have focused on the problem of filling out the merchandise return form correctly.
   - She should have stressed the benefits of completing the procedure correctly by explaining that Joe's sales will suffer if he continues to upset customers by handling their returns incorrectly.
   - Ms. Jameson should have explained the steps of the procedure for filling out the merchandise return form, providing a demonstration or emphasizing complicated steps if necessary.
   - Joe should then have been given a chance to ask questions and either perform the procedure or repeat the steps back to Ms. Jameson.
   - Ms. Jameson should have shown Joe that she is confident in his ability to handle the problem correctly in the future.
   - She should have used the meeting to discuss things Joe has done correctly in the past.

I. Answers to Evaluation

1. d
2. a
3. c
4. d

5. Constructive criticism is valuable because it allows a business to meet its goals of operating productively and efficiently, helps an employee to improve his or her job performance, and improves employee morale.

6. To make nonconstructive criticism valuable, meet it with a positive attitude. Assure the person giving the criticism that you are committed to doing better. Ask questions about how to resolve the problem. If no instructions are given, find out what has to be done to solve the problem.

7. Answers may include any five of the following.

   a) Mention only the things the person can correct.
   b) Be clear about what is to be corrected.
   c) Emphasize the benefits of the criticism.
   d) Pick the right setting and time.
   e) Criticize the problem and not the person.
   f) Mention things that the person does correctly.
   g) Speak in a positive tone.
   h) Demonstrate confidence in the person's ability to correct the problem.
   i) Look for signs that show that the listener is responding positively.

Name ______________________________

Lesson 3: Criticism

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. When giving criticism:

   a. Criticize the person and not the problem.
   b. Ask questions about how to resolve the problem.
   c. Allow the other person to figure out a solution.
   d. Mention things that the person has done correctly.

2. Which of the following is not important in learning to take instructions from others?

   a. Listen closely in order to understand instructions so asking for help is unnecessary.
   b. Ask questions when the information that has been given in the instructions is not clear.
   c. Use the instructions that have been given to complete the task correctly.
   d. Always ask for help if a task cannot be completed correctly for some reason.

3. What is the difference between nonconstructive and constructive criticism?

   a. Constructive criticism only identifies the problem, while nonconstructive criticism includes instructions.
   b. Constructive criticism often hurts people, while nonconstructive criticism does not.
   c. Constructive criticism includes instructions, while nonconstructive criticism only identifies the problem.
   d. Constructive criticism rarely corrects a problem, while nonconstructive criticism usually corrects it.

4. What should an employee do when receiving criticism?

   a. Choose the right setting and time to receive the criticism.
   b. Defend himself or herself to the boss to defuse the criticism.
   c. Disregard nonconstructive criticism, which is never valuable.
   d. Listen carefully to the message being given in the criticism.

Complete the following short answer questions.

5. What are three reasons why constructive criticism is valuable?

   a.

   b.

   c.

6. How can nonconstructive criticism be turned into constructive criticism?

7. What are five guidelines for giving constructive criticism?

   a.

   b.

   c.

   d.

   e.

Receiving Criticism

- Listen carefully to the message being given.
- Respect the person giving the criticism.
- Listen closely to understand the problem and the instructions for correcting it.
- Do not make excuses or be offended.
- Make plans to correct the problem.
- Learn how to take instructions from others.
- Ask for help when a task cannot be completed correctly.
- When criticism is not constructive, take steps to make it valuable.

Giving Criticism

- Give criticism calmly, courteously, and fairly.
- Be concerned only with what the listener can correct.
- Be clear about what is to be corrected.
- Emphasize the benefits of the criticism.
- Pick the right setting and time to criticize.
- Mention things that the person does correctly.
- Speak in a positive tone.
- Demonstrate confidence that the task can be completed correctly.
- Look for signs that the listener is responding positively to the criticism.

Lesson 3: Criticism Name ____________________

Handling Criticism

Objective: Describe how criticism may be handled effectively.

Read the scenario below and answer questions.

Joe recently became a sales representative for a large agribusiness. He is attending a district sales meeting. His boss, Ms. Jameson, begins to criticize him because one of Joe's customers had some merchandise that needed to be returned to the company for credit and Joe did not prepare the merchandise return form correctly. Ms. Jameson explains to him and the other salespeople at the meeting that the customer was angry and called her to complain because the merchandise was returned to him because of improper documentation. Ms. Jameson speaks very harshly and is obviously very irritated with Joe. She is particularly upset because the shipping charges will have to be paid again to have the merchandise returned properly. Ms. Jameson goes on to suggest that costly mistakes like Joe's are the reason why sales expenses have been so high lately.

Ms. Jameson begins to discuss some other problems with sales, but Joe is not paying attention. He is very embarrassed and says nothing for the rest of the meeting. Joe was never shown the proper method of filling out the form and is still not sure of the proper procedure.

1. How can Joe turn his boss's criticism into constructive criticism?

2. What are three things Ms. Jameson should have done to improve her criticism?

Lesson 4: Ethical Behavior in the Workplace

Competency/Objective: Describe what is considered to be ethical behavior in the workplace.

Study Questions

1. **What are work ethics?**
2. **How can a person differentiate between ethical and unethical behavior?**
3. **How do work ethics affect job performance and advancement?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IV.
2. Activity Sheets
   - a) AS 4.1: Identifying the Effects of Unethical Behavior
   - b) AS 4.2: An Ethical Dilemma

UNIT IV - PERSONAL DEVELOPMENT

Lesson 4: Ethical Behavior in the Workplace

TEACHING PROCEDURES

A. Review

Lesson 3 discussed criticism. Constructive criticism includes instructions on how a problem can be resolved, while nonconstructive criticism only identifies the problem without explaining how to correct it. Learning to give and take criticism appropriately can help workers and managers improve their job performance. In this lesson, ethical behavior in the workplace will be addressed. Ethical behavior is shown in the way a worker follows standards of conduct. Ethical behavior shows self-respect and personal integrity and inspires confidence in oneself and others.

B. Motivation

Read the following scenario to the class. Use the questions at the end as the basis of a discussion about ethics in the workplace.

David and Joan work in the office of a large retail grocery store. Their job is to balance the cash registers and account for the money received by the store each day. Part of their job includes accounting for sales by matching cash, checks, and coupons to daily totals. David and Joan work different shifts, but on busy days their work schedules sometimes overlap.

One day when David was working with Joan, he noticed her reach into her pocket, pull out a stack of manufacturers' coupons, and add them up on the adding machine. She then put the coupons in one of the cash drawers, took out some money, and put it into her pocket. At first David said nothing, but after a while he asked Joan what she was doing. Joan explained that she cuts manufacturers' coupons out of the newspaper at home and saves them and then exchanges them for cash out of one of the register drawers. She told him that the store is not losing money because it gets its money back from the manufacturers, and she makes an extra five to ten dollars each day without purchasing the products.

David knows that the store does return the coupons to the manufacturers and is reimbursed for the coupon's value plus a small handling charge. He still thinks what Joan is doing is wrong.

Is Joan's behavior wrong? Do you think David should inform the boss? Who loses in this situation?

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss with the class what work ethics are. Point out that a business cannot survive if employees do not act ethically.

   What are work ethics?

   Work ethics are principles of right conduct as accepted by a profession or by the business world in general. Individual businesses may have formal written codes of ethics that establish certain rules and practices to govern day-to-day operations.

2. Ask students what they consider to be ethical behavior in the workplace. Discuss ethical and unethical behavior. Divide the class into groups and have students complete AS 4.1. Discuss their answers. Have students complete AS 4.2.

   How can a person differentiate between ethical and unethical behavior?

   a) If a business has a written code of ethics or clearly follows unwritten standards of professional conduct, an employee should base his or her behavior on them.
   b) If not, an employee should try to determine what is ethical by following certain guidelines.
      1) Obey laws (the minimum standard for determining ethical behavior)
      2) Enhance self-respect
      3) Develop personal integrity
      4) Take the needs of other people into consideration
      5) Build confidence in others

3. Discuss why ethical behavior is important in the workplace.

   How do work ethics affect job performance and advancement?

   a) Being caught acting unethically can damage a person's career. Once a person gains a reputation for acting unethically, regaining the trust of others may be difficult or impossible.
   b) Ethical behavior is an essential part of good job performance and creates the potential for advancement. An organization promotes employees who are assets to the organization, because managers want their behavior to spread to others. Most businesses want managers to have especially high standards of ethics.

F. Other Activities

Have a class discussion about ethical issues that students have encountered or should be concerned with at school or in the workplace.

G. Conclusion

Ethical choices are not always simple to make. Members of business organizations must act ethically, however. Unethical behavior can ruin a career, while a reputation for ethical conduct helps create opportunities for advancement. Unethical actions can also damage a business itself it they become known or are suspected by the public. Ethical behavior is simply good for business.

H. Answers to Activity Sheets

AS 4.1

Answers will vary. Suggested answers are given below.

1. Being late or not showing up for work creates problems for a business because businesses only hire the number of employees needed to operate efficiently and be competitive. They cannot afford the expense of hiring extra employees to compensate for someone who does not show up. Kevin also makes more work for his coworkers, since they have to take on his duties. Overall, the efficiency of the business is reduced, since the product or service cannot be produced as it should be.

2. Individual pens and note pads may not be expensive, but the expense adds up if the business has to purchase more to make up for consistent losses. Depending on the amount of profit the business makes, these losses could make a difference to its overall financial well-being.

3. When customers or potential customers hear employees speak badly of the business where they work, they will often choose not to purchase products or services from that business. Robin could cause the store where she works to lose sales. If the problem becomes bad enough, Robin or her coworkers could lose their jobs.

AS 4.2

Answers will vary.

I. Answers to Evaluation

1. b
2. c
3. a

4. Organizations promote employees who are assets to the organization, because managers want their behavior to spread to others. Most businesses want managers to have especially high standards of ethics.

5. Work ethics are principles of right conduct as accepted by a profession or by the business world in general.

6. Ethical behavior obeys laws, enhances self-respect, develops personal integrity, takes the needs of other people into consideration, and builds confidence in others.

Name ____________________________

Lesson 4: Ethical Behavior in the Workplace

Date ____________________________

EVALUATION

Circle the letter that corresponds to the best answer

1. Why can acting unethically damage a career?

   a. Because unethical behavior is always caught and punished
   b. Because regaining the trust of others may be difficult or impossible
   c. Because workers who act unethically are automatically fired
   d. Because all managers have high standards of ethics

2. What is the minimum standard for determining ethical behavior?

   a. If an action develops moral standards
   b. If an action is rewarded by profits
   c. If an action obeys the laws
   d. If an action is not punished by a business

3. What is the purpose of a formal written code of ethics?

   a. To establish certain rules and practices to govern the day-to-day operations of an organization
   b. To resolve all debate in society about what constitutes ethical behavior
   c. To outline punishments for all unethical behavior by employees
   d. To end ethical dilemmas by setting down ethical guidelines covering all situations

Complete the following short answer questions.

4. How does ethical behavior create the potential for advancement?

5. How are work ethics defined?

6. What are five guidelines for determining whether an action is ethical?

a.

b.

c.

d.

e.

Lesson 4: Ethical Behavior in the Workplace Name ____________________

Identifying the Effects of Unethical Behavior

Objective: Identify the effects of unethical behavior.

Unethical behavior by employees affects their coworkers and the business as a whole. Working in groups assigned by your teacher, read the following scenarios and determine the effect of the behavior described. Be prepared to discuss your answers.

1. Kevin often comes to work late. Sometimes he shows up an hour after his shift started. One day he did not come into work at all. He always has an excuse when he does come in.

2. Chris often takes pens and note pads home from the office where she works. She points out that these things really are not very expensive, and the business always has plenty on hand to use in the office.

3. Robin often speaks badly of the store where she works to the people she meets. She is very critical of the business and its management whenever it is mentioned.

Lesson 4: Ethical Behavior in the Workplace

Name ______________________________

An Ethical Dilemma

Objective: Distinguish between ethical and unethical behavior.

Read the paragraphs below, then answer the question. Explain the reasoning behind your answer.

One year ago, Sara was promoted to regional sales manager in a large agricultural firm. She is in charge of twenty sales representatives. All of her sales representatives except Pete have had a very good year. Sales for Pete's territory are down 25 percent from the previous year.

Pete has been with the company for 15 years. Until a year ago, Pete had the number-one territory in the entire company and the highest percentage of increases every year. He originally trained Sara. Sara credits Pete with helping her get her promotion and has always counted on him for advice.

Last year, Pete became ill, and his poor health has made it hard for him to cover his territory, which has caused a decrease in sales. Sara has tried to help him, but her other responsibilities have limited the amount of time she can spend on his problems. Pete puts as much effort into the job as he can, but his health has impaired his ability to do the job, although his health is not bad enough to force him to quit working. He hopes he will get stronger but is unsure how long it will take for his health to improve.

Sara recently received a letter from the new vice president of sales congratulating her for having the largest sales increase in the company. The vice president also asked for information on why Pete's sales were down. He wanted to know if the decrease was because of heavy competition or problems with the salesperson. In the case of strong competition, the company would spend extra money on advertising and public relations to increase sales in the area.

In the past, the company has always moved sales representatives with health problems that interfere with their work to other jobs that are not as physically demanding. However, the pay for these positions has been as much as 50 percent less than what the sales representative had been making.

Sara knows that Pete has two children in college and a large mortgage. Such a drastic pay cut would be a great financial hardship. She also knows that heavy competition is not the problem in Pete's territory.

What should Sara tell the vice president?

UNIT IV - PERSONAL DEVELOPMENT

Lesson 5: Managing Time Effectively

Competency/Objective: Use goals to plan projects and solve problems.

Study Questions

1. **What is the purpose of setting goals?**
2. **How are goals set?**
3. **How are goals prioritized?**
4. **How is a personal time management system set up?**
5. **What tools are available to help manage time?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IV.
2. Transparency Master
    a) TM 5.1: Setting Goals

Lesson 5 - Managing Time Effectively

TEACHING PROCEDURES

A. Review

Lesson 4 discussed ethical behavior. Work ethics are principles of right conduct. Time management will be the focus of Lesson 5. Time is the most valuable commodity. It may be managed effectively by setting, evaluating, and adjusting goals.

B. Motivation

Ask students if they ever wanted to complete a task but did not attempt it because it seemed unattainable. When some people want to get something done, they set goals that help them direct their energy to objectives that meet the desired end. Goals help people organize their plans so that large projects do not seem unattainable. For example, if you were setting a goal to plan a career, the goal would need to be broken down into smaller pieces so that your energy could be directed to the various steps needed to achieve the goal.

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss the purpose of setting goals. Goals are an important part of personal development because they help people plan their use of time.

   What is the purpose of goal setting?

   a) To allow an individual to make choices about the best use of time
   b) To give life purpose
   c) To divide a project into manageable parts in order to manage time effectively
      1) Objectives allow time and energy to be focused on a particular step toward completing the goal.
      2) Objectives can be used to evaluate the progress made toward the desired goal.

2. Ask students how they would develop goals. Point out that goals need to be planned so that the necessary steps are clear and measurable. TM 5.1 illustrates the process of goal setting.

   How are goals set?

   a) Make sure the goal is truly desired.
   b) Make a short statement describing the goal.
   c) Carefully consider the steps necessary to achieve the goal.
   d) Develop a plan of action.
   e) Put the plan into action.
   f) Reread the plan periodically to measure the progress that has been made and to determine if present performance will meet the goal.

3. Ask students how they prioritize their goals. Discuss the different ways of prioritizing goals.

How are goals prioritized?

a) To satisfy organizational goals
b) To target problem areas
c) According to the natural chain of events
d) By relative urgency and importance

4. Discuss how a time management system can be put into place.

How is a personal time management system set up?

a) List and prioritize current goals.
b) Make a list of the objectives that need to be completed to reach each goal, and prioritize them.
c) Relate the tasks for the day to the objectives, and prioritize them on the basis of goals and objectives.
d) Set up a schedule for the tasks, focusing on the tasks with the highest priority.

5. Discuss the tools that can be used to help manage time.

What tools are available to help manage time?

a) List
  1) The list should include everything that needs to be accomplished, prioritized from the most important to the least important.
  2) Each day new items will be added as others are completed and taken off the list.
b) Personal planner
  1) Personal planners contain information on daily, weekly, and monthly agendas, priorities, and finances.
  2) They also may contain important personal and business telephone numbers and addresses.
c) FFA personal planner
  1) Designed for high school students, it has a calendar for recording assignments and due dates as well as other important activities.
  2) The planner also contains information about FFA, goal-setting and time management tips, and a study guide section.

F. Other Activities

1. Have an open discussion on how goal setting can help solve problems. Discuss how goals could make someone a better athlete, student, employee, or supervisor.

2. Have students keep a schedule of how each of them spends his or her time during the week. At the end of the week, have them total up how much time is wasted.

3. Have students complete a planner to plan their use of time.

G. Conclusion

To manage time effectively, developing goals is important. Goals are simply an outcome toward which a person directs his or her efforts. They need to be planned so that objectives, which are the necessary steps to achieve a goal, are clear and measurable. Goals may be prioritized due to a natural chain of events, to satisfy organizational goals, to target problem areas first, or by relative urgency and importance. Big results may be achieved in very little time if goals and objectives are set, evaluated, and adjusted.

H. Answers to Evaluation

1. c
2. c
3. d

4. List and prioritize current goals. Make a list of the objectives that need to be completed to reach each goal, and prioritize them. Relate the tasks for the day to the objectives, and prioritize them on the basis of goals and objectives. Set up a schedule for the tasks, focusing on the tasks with the highest priority.

5. To satisfy organizational goals, to target problem areas, according to the natural chain of events, and by relative urgency and importance.

6. Make sure the goal is truly desired. Make a short statement describing the goal. Carefully consider the steps necessary to achieve the goal. Develop a plan of action. Put the plan into action. Reread the plan periodically to measure the progress that has been made and to determine if present performance will meet the goal.

7. Personal planners contain information on daily, weekly, and monthly agendas, priorities, and finances. They also may contain important personal and business telephone numbers and addresses.

UNIT IV - PERSONAL DEVELOPMENT Name ____________________________

Lesson 5: Managing Time Effectively Date ____________________________

EVALUATION

Circle the letter that corresponds to the best answer

1. What is the first step in setting goals?

   a. Stating the goal
   b. Developing a plan of action
   c. Making a commitment to the goal
   d. Prioritizing objectives

2. One purpose of goal setting is:

   a. To use the goals to help fulfill objectives.
   b. To stop problems from occurring when completing projects.
   c. To divide projects into manageable parts to manage time effectively.
   d. To link short-term and long-term objectives when completing a plan of action.

3. When prioritizing goals at work, an employee should consider ____________________ goals first.

   a. Sales
   b. Career
   c. Individual
   d. Organizational

Complete the following short answer questions.

4. What are the steps in setting up a personal time management system?

   a.

   b.

   c.

   d.

5. What are four ways in which goals can be prioritized?

   a.

   b.

   c.

   d.

6. What are the steps in setting goals?

   a.

   b.

   c.

   d.

   e.

   f.

7. What information is included in a personal planner?

Goal Setting

Goal setting involves several steps:

- Commit to the goal.
- State the goal.
- Consider the steps necessary to achieve the goal.
- Form a plan of action.
- Put the plan into action.
- Reread the goal to check progress toward achieving it and whether present performance is sufficient.

UNIT IV - PERSONAL DEVELOPMENT

Lesson 6: Developing Stress Management Techniques

Competency/Objective: Develop stress management techniques.

Study Questions

1. **What are some indicators of excessive stress?**
2. **What are some causes of stress in the workplace?**
3. **What are some stress management techniques?**
4. **How can a healthy lifestyle be maintained?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IV.

Lesson 6: Developing Stress Management Techniques

TEACHING PROCEDURES

A. Review

Lesson 5 discussed how to manage time effectively by setting and adjusting goals. Setting goals helps people to focus on doing what must be done to achieve those goals and measure their progress. Goals help individuals to use their time so that large projects do not seem unattainable. Lesson 6 will focus on stress and stress management techniques. Unless stress is properly managed, it can cause mental or physical disorders.

B. Motivation

Ask students how they would feel if they were walking and encountered a vicious dog that looked like it was going to attack. Point out that most people would become quite tense, experiencing a "fight or flight" response, that is, to either defend themselves or run. After extreme tension, the body's natural response is to relax. However, as people's lives become more and more complex, their bodies may remain in a constant state of tension.

Prepare the class by creating a quiet environment. Make sure students are in a comfortable position before reading the following guided imagery. Read the passage before class to become familiar with it. Whenever there is a series of dots (. . .), pause for at least 5 seconds. Read the passage to the class slowly and in a pleasant voice.

Close your eyes and take three deep breaths. Breath slowly and easily, in through your nose and out through your mouth. Keep your eyes closed and your body relaxed.

Picture a happy, pleasant time in your life . . . a time when you had few or no problems. . . .

Look at the surroundings. . . . Are you indoors? . . . Are you outdoors? . . . Who is there? . . . What are you doing? . . . Listen to the sounds around you . . . even those in the background. . . . Are there any pleasant smells? . . . Feel the temperature. . . . Now just enjoy the surroundings. . . . Fix the good feelings in your mind. . . . You can now return to this scene any time by just picturing it.

When you are ready to stop, take three deeps breaths. . . . With each breath say the word "relax" to yourself. Then open your eyes and remain quiet. . . .

Explain to students that this relaxation method helps the body relax and allows a person to take on more tasks with less stress.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students to describe some signs of high stress levels.

What are some indicators of excessive stress?

a) Insomnia
b) Dysfunctional eating habits, including eating too much or a lack of appetite

c) Panic attacks
d) Hyperventilation
e) Increased smoking or alcohol consumption
f) Abuse of prescription or nonprescription drugs
g) Headaches
h) Muscle spasms and soreness
i) Jaw problems caused by clenching and grinding the teeth
j) Cold and canker sores
k) Skin disorders, including itchy or painful rashes and outbreaks of acne
l) Digestive tract problems, the most serious of which are ulcers
m) Chest pain
n) High blood pressure (hypertension), which can be worsened by stress and cause damage to the kidneys or, in serious cases, strokes
o) "Blahs" or "blues"
p) Depression
    1) Loss of interest in school, work, friends, or activities
    2) Difficulty sleeping, interrupted sleep, or sleeping more than usual
    3) Loss of interest in food, personal care, and grooming
    4) Unplanned gain or loss of weight in a short period of time
    5) A feeling of unhappiness that lasts longer than six weeks
    6) Suicidal thoughts
    7) A pattern of carelessness that may cause accidents while walking or driving
    8) Poor self image and feelings of worthlessness
    9) Blowing up frequently and easily over minor matters that never really were a bother before
    10) Loss of energy
    11) Feelings of confusion and inability to concentrate

2. Have students describe causes of stress in school. Point out that school is their workplace, and discuss sources of stress in the workplace.

What are some causes of stress in the workplace?

a) The gap between the demands of the work and what can reasonably be achieved
b) The difference between an individual's desires or expectations for advancement and recognition and what he or she achieves or receives as a reward
c) Personality conflicts with other employees or supervisors
d) Physical illness or problems outside the workplace that make it difficult to concentrate on the job

3. Ask students to describe ways in which they manage stress. Discuss different stress management techniques.

NOTE: Be tactful when discussing therapy. Students who are undergoing therapy or who have seen a therapist may be sensitive about this issue.

What are some stress management techniques?

a) Physical relaxation techniques
    1) Deep-breathing exercises - Concentrate on taking slow, deep breaths
    2) Muscle relaxation - Alternately tense and release muscle groups
b) Mental relaxation techniques
    1) Meditation - Focus on one relaxing thought or word for a significant length of time--at least twenty minutes
    2) Visualization - Imagine a pleasant scene and retain the feeling that it triggers

c) Efficient time management - Review activities and eliminate those that cost more in terms of time or stress than they are worth
d) Focusing on other areas in life - Engage in a variety of activities, especially leisure activities
e) Talking to other people - Gather support from others, especially family and friends
f) Humor - Try to find humor in everyday situations and problems and take time to seek out humorous things
g) Professional help through a therapist or support group - Get help to deal with repeated bouts of stress or depression

4. Part of managing stress is maintaining a healthy lifestyle. Ask students to describe the components of a healthy lifestyle.

How can a healthy lifestyle be maintained?

a) Diet
    1) Need a balanced diet high in complex carbohydrates (which release long-term energy) and low in fats (which increase blood cholesterol levels linked to heart disease)
    2) Should not skip meals, particularly breakfast
b) Exercise - should do thirty minutes of aerobic exercise three times a week with proper warm-up and cool-down periods
c) Sleep - require at least seven hours of sleep a night, and more for people under stress

F. Other Activities

1. Have a class discussion about how students manage stress. Ask them whether they think they are easily stressed or not. Discuss how different individuals handle stressful situations.

2. Have students listen to stress management tapes.

G. Conclusion

Excessive stress can cause or aggravate physical or mental problems, including serious problems such as high blood pressure and depression. Being able to manage stress effectively is therefore very important for personal well-being. While much can be done by an individual to manage stress, sometimes people cannot manage stress by themselves and need the help of others, such as a therapist or support group. Diet, exercise, and sleep are vital both in reducing the effects of stress and maintaining a healthy lifestyle.

H. Answers to Evaluation

1. b
2. d
3. d
4. c
5. a

6. Visualization is a method of stress management in which a person imagines a pleasant scene and retains the feeling that it triggers.

7. Answers may include any five of the following indicators.

- Insomnia
- Dysfunctional eating habits, including eating too much or a lack of appetite
- Panic attacks
- Hyperventilation
- Increased smoking or alcohol consumption

- Abuse of prescription or nonprescription drugs
- Headaches
- Muscle spasms and soreness
- Jaw problems caused by clenching and grinding the teeth
- Cold and canker sores
- Skin disorders, including itchy or painful rashes and outbreaks of acne
- Digestive tract problems, the most serious of which are ulcers
- Chest pain
- High blood pressure (hypertension), which can be worsened by stress and cause damage to the kidneys or, in serious cases, strokes
- "Blahs" or "blues"
- Depression

8. A diet high in complex carbohydrates and low in fats is beneficial because complex carbohydrates release long-term energy and fats increase blood cholesterol levels linked to heart disease.

9. Students may list any two of the following: the gap between the demands of the work and what can reasonably be achieved, the difference between an individual's desires or expectations for advancement and recognition and what he or she achieves or receives as a reward, personality conflicts with other employees or supervisors, or physical illness or problems outside the workplace that make it difficult to concentrate on the job.

UNIT IV - PERSONAL DEVELOPMENT

Name ______________________________

Lesson 6: Developing a Positive Work Attitude

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. How many hours of sleep do most people need each night?

   a. Six
   b. Seven
   c. Eight
   d. Nine

2. Which of the following is not a sign of depression?

   a. Poor self image and feelings of worthlessness
   b. Difficulty sleeping, interrupted sleep, or sleeping more than usual
   c. Unplanned gain or loss of weight in a short period of time
   d. Skin disorders, including itchy or painful rashes or acne

3. One method of managing stress is:

   a. Taking on more and more activities, especially ones that require lots of time
   b. Concentrating on controlling breathing--taking fast, shallow breaths
   c. Tensing the muscle groups of the body without releasing them
   d. Engaging in a variety of activities, especially leisure activities

4. How much exercise is appropriate for a healthy lifestyle?

   a. Twenty minutes of aerobic exercise three times a week
   b. Twenty minutes of aerobic exercise four times a week
   c. Thirty minutes of aerobic exercise three times a week
   d. Thirty minutes of aerobic exercise four times a week

5. In ____________________, the person experiencing stress focuses on one thought or word for a significant length of time.

   a. Meditation
   b. Visualization
   c. Muscle relaxation
   d. Deep-breathing exercises

Complete the following short answer questions.

6. What is visualization?

7. What are five indicators of excessive stress?

   a.

   b.

   c.

   d.

   e.

8. Why is a diet high in complex carbohydrates and low in fats beneficial?

9. What are two causes of stress in the workplace?

   a.

   b.

UNIT IV - PERSONAL DEVELOPMENT

Lesson 7: Finding a Job

Competency/Objective: Develop a plan for finding a job.

Study Questions

1. **What steps should be taken when choosing a career?**
2. **What might be included in a plan for career preparation?**
3. **What are five possible ways to find information about available jobs?**
4. **What steps should be followed when applying for a job?**
5. **How are job inquiries made?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IV.
2. Activity Sheet
    a) AS 7.1: Career Goals

Lesson 7: Finding a Job

TEACHING PROCEDURES

A. Review

Lesson 6 discussed stress management. Various stress management techniques can be used to relieve stress and its effects. A healthy lifestyle is also important in managing stress. This lesson will provide some insight into finding jobs.

B. Motivation

1. Watch the videos *Are You Ready* (JC Penney) and *Interviews, Careers, and the Jitterbug Blues* (Beachern/Silveman Productions), which are both available from the Missouri Vocational Resource Center. Discuss how the students in the videos gathered information for careers. Discuss how they made decisions about which careers to pursue.

2. Bring in the classified advertisements from a newspaper for a large city. Have students list agricultural jobs in different salary ranges. After five to ten minutes, discuss their findings.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students if they know how their parents chose their careers. What things influenced their career choices? Discuss the steps in choosing a career. Have students complete AS 7.1.

NOTE: Students can use the computer-based career exploration system "Missouri CHOICES" from the Missouri Occupational Information Coordinating Committee (MOICC) as an aid in exploring their career-related needs and careers that might satisfy those needs. Your school advisement center may have the software.

What steps should be taken when choosing a career?

a) Consider interests, abilities, and other characteristics.
    1) What are your hobbies and interests?
    2) What talents do you have?
    3) What careers appeal to you?
    4) In what courses in school did you do well?
    5) In what areas do you have experience or knowledge?
    6) Which of your physical characteristics may influence your decision?
b) Take career interest or vocational aptitude tests.
c) Narrow the field of career choices.
    1) Do you like to work with people or things?
    2) Do you like to work alone or with others?
    3) Do you want to work indoors or outdoors?
    4) Would you rather work with your hands or with ideas?
    5) What type of salary do you want?
    6) Do you want to live in a rural or urban location?
d) Study the characteristics of career choices.
    1) Compare the following information

            - (a) Education or training required
            - (b) Work environment
            - (c) Salary range
            - (d) Expectations and duties of the job
            - (e) Opportunities for advancement
        - 2) Obtain information from the following sources.
            - (a) Library
            - (b) School counselor
            - (c) Career center
            - (d) People in the career
    - e) Choose a career that matches personal interests.
    - f) Plan for alternative occupations.
        - 1) Look at careers in related areas.
        - 2) Look at careers that require similar skills.
    - g) Plan for career preparation.

2. Ask students how many of them have a career goal or some idea about what they want to do. Do they have a plan for career preparation? If they do not have a goal, are they doing anything to help them prepare for a career? Discuss plans for career preparation.

    What might be included in a plan for career preparation?

    - a) Take courses in high school.
        - 1) Take courses that are interesting.
        - 2) Explore a variety of subjects.
    - b) Get work experience during high school.
        - 1) Use different strategies to gain experience.
            - (a) SAE programs
            - (b) Summer jobs
            - (c) Work-study programs
            - (d) Unpaid observations
        - 2) Try to explore a variety of career possibilities.
    - c) Plan for additional education or training beyond high school in vocational-technical schools, two- and four-year colleges and universities, or private technical schools.

3. Bring in some samples of classified advertisements from newspapers and agricultural magazines. Have students identify job opportunities. Then discuss what they have found. Ask if they think the opportunities they discovered are the only ones available. Discuss other ways to find job openings.

    What are five possible ways to find information about available jobs?

    - a) Classified advertisements - searching local newspapers, and/or newspapers from surrounding cities or states, and magazines covering an area of interest
    - b) Personal contacts with friends, family, teachers, etc.
        - 1) Asking directly about job opportunities
        - 2) Practicing active listening to hear about job opportunities
    - c) Private and public employment agencies
    - d) Direct contact with businesses
        - 1) Asking about opportunities
        - 2) Looking at the placement bulletin board
    - e) School placement offices
        - 1) Telling the placement person what types of jobs are of interest
        - 2) Looking on the placement board
        - 3) Meeting with visiting recruiters
    - f) Internet--job search resources

4. How should an individual apply for a job opening? Ask students what steps should be followed in applying for a job.

   What steps should be followed when applying for a job?

   a) Prepare a resume.
   b) Contact the employer about job opportunities.
   c) Fill out a job application.
   d) Interview with the business.
   e) Follow up after the interview.

5. Ask students how they would follow up on a lead for a possible job at an area business. Select two students to role-play. One should play a person inquiring about a job; the other should portray the manager. Discuss the role-playing activity and how to make job inquiries.

   How are job inquiries made?

   a) Direct contact with the employer
   b) By telephone
   c) By letters of inquiry

F. Other Activities

1. Have students pick a career and then research related occupations.

2. Have students conduct a job search of the local area. Have them identify job openings.

3. Have students search the Internet for national job openings in a particular career.

4. Have students select a job interest area and research related careers. The student should find at least five job openings from several different sources.

5. Have students practice writing letters of inquiry.

6. Bring together a small library of career preparation references. The references could be borrowed from the school counselor, the public library, or the school library. Students could use these references to find information about different careers.

7. Have a recent graduate or panel of graduates from the program talk to the class about the process they used to locate their jobs.

8. Have a employer from the community evaluate applications and resumes submitted by students and then provide feedback to the students.

G. Conclusion

Finding the right job is not always easy. Choosing a career is a very important decision. Finding a job begins with choosing a career based on personal interests and abilities and then preparing for that career. When preparation for that career is complete, searching for job openings is necessary. Once an opening is discovered, the job seeker should contact the potential employer about the job.

H. Answers to Evaluation

1. a
2. d
3. d

4. Answers should include three of the following: classified advertisements; personal contacts with friends, family, teachers, etc.; private and public employment agencies; direct contact with businesses; school placement offices; or the Internet.

5. The seven steps in choosing a career are as follows.
    a) Consider interests, abilities, and other characteristics.
    b) Take career interest or vocational aptitude tests.
    c) Narrow the field of career choices.
    d) Study the characteristics of career choices.
    e) Choose a career that matches personal interests.
    f) Plan for alternative occupations.
    g) Plan for career preparation.

Name ______________________

Lesson 7: Finding a Job

Date ______________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which is not an example of an activity that will help in career preparation?

    a. Taking electives instead of academic courses
    b. Exploring a variety of subjects in school
    c. Working to gain experience in areas of interest
    d. Taking courses you know you are interested in

2. Which of the following is a good method of making a job inquiry, as discussed in class?

    a. A proposal for employment
    b. Radio communications
    c. By telegram
    d. Direct contact with the manager

3. Which of the following is not important when considering your interests and abilities?

    a. Knowing your hobbies and interests
    b. Considering your talents
    c. Knowing what other people want you to do
    d. Recognizing courses in which you do well

Complete the following short answer questions.

4. What are three ways to find out about job openings?

    a.

    b.

    c.

5. What are the seven steps in choosing a career, as outlined in the lesson?

    a.

    b.

    c.

    d.

    e.

    f.

    g.

Lesson 7: Finding a Job

Name ______________________________

Career Goals

Objective: Use the process of goal setting to establish goals for a career.

Complete the questions below to develop a plan for reaching career goals.

1. Write a short statement that describes the field that you would like to work in and the specific type of job you would like to do.

2. What degree(s), certification, or training is needed for this career?

3. What type of work experience would you need for this career? Where could the experience be obtained?

4. What have you already done that might help you in the career?

5. What people or organizations might be of help to you in getting more information about this type of career?

6. Write down your personal plan-of-action for reaching this goal. Include such items as a list of high school courses that will be needed to enter into a chosen college, projects or work experience that are necessary for the goal, and dates for college entrance examinations or interviews. Give approximate dates for the completion of objectives.

Lesson 8: Resumes and Applications

Competency/Objective: Develop a resume and complete a job application.

Study Questions

1. **What information should be included on a resume?**
2. **How should the resume be prepared?**
3. **How is a job or scholarship application completed?**
4. **What is the purpose of a cover letter?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IV.
2. Activity Sheets
    - a) AS 8.1: Completing a Resume
    - b) AS 8.2: Completing a Job Application

UNIT IV - PERSONAL DEVELOPMENT

Lesson 8: Resumes and Applications

TEACHING PROCEDURES

A. Review

Lesson 7 discussed selecting a career area and then finding a job in that career. This lesson will discuss resumes and applications. Preparing a resume and completing an application are very important parts of getting a job. These items get a prospective employee's "foot in the door" with an employer. Since a resume and application provide what is usually the first contact an employer will have with a job applicant, they should be impressive so he or she will take notice of the applicant's skills and talents.

B. Motivation

Ask students if they can identify the common factor in getting a $1,000 college scholarship and getting a job. Both probably require an application. Often people are judged by what they write down rather than by who they are.

C. Assignment

D. Supervised study

E. Discussion

1. Ask students if any of them have recently applied for jobs. During the application process, were they required to supply resumes or complete application forms? Discuss how resumes will help students complete job applications. Discuss why a student should give a prospective employer a copy of his or her resume. Pass around copies of resumes to illustrate the format. Have students complete AS 8.1.

NOTE: The CD-ROM "Creating and Using Student Electronic Portfolios in the Classroom" from the Instructional Materials Laboratory can be used as an aid in completing this lesson.

What information should be included on a resume?

a) Personal information
    1) Name
    2) Current address
    3) Telephone number
    4) Permanent address, if different from current
b) Employment objective
c) Educational background
d) Work experience
e) Other information
    1) Activities
    2) Honors
    3) Awards
    4) Skills
f) References - may be furnished on request or printed directly on the resume

2. Ask students to discuss how a resume should be prepared. What is the most important information? After discussing the information included on resumes, have the students complete resumes for themselves.

How should the resume be prepared?

a) List basic personal information first.
b) List an objective that is specific to each job; change the objective when applying for a different job.
c) Record educational background and work experience in separate sections. Include dates and places. The most recent information should be listed first. Any information relevant to obtaining a degree should be listed here. In work experience, include the company name and address, the job title, job duties, and starting and ending dates of employment.
d) Organize activities, awards, etc., with the most important items first. From a long list, choose only the most important. Include the items that are appropriate for the type of job sought.
e) Information for references should include names, job titles, addresses, and telephone numbers.
    1) Include at least three people (not relatives) who have knowledge about the work experience, skill, and/or character of the applicant.
    2) Ask for permission to use a person as a reference.
f) Limit the resume to one or two pages. To keep it as short as possible, only include the most important information. For entry-level jobs, one page is enough.
g) Neatly type the resume and then make sharp, clean photocopies on good quality paper.

3. Bring in several job and scholarship applications to show to the class. Have students discuss their similarities and differences. Ask students how they should complete applications. Have each student complete the sample job application in AS 8.2.

How is a job or scholarship application completed?

a) Be as neat as possible; type the application or write neatly with black ink.
b) Do not leave any blanks. Put "N/A" for questions that do not apply.
c) Spell all words correctly.
d) Follow the directions on the application.
e) If the application may be taken home, make a photocopy of the form and prepare a working copy. Then accurately transfer the information to the application that will be given to the company.
f) Carry a copy of the resume and any other information that may be needed to fill out an application when contacting a potential employer in person.

4. Ask students what they think should be included in a cover letter. Discuss its purpose.

What is the purpose of a cover letter?

a) To gain the interest of a potential employer and inform him or her of the applicant's qualifications
b) To request an interview

F. Other Activities

1. Have students bring in samples of applications for different jobs and scholarships and make a file for other students' use.

2. Have a local employer evaluate student resumes.

G. Conclusion

Resumes and applications must be of good quality to represent people at their best. Since decisions about hiring an employee or awarding a scholarship are frequently made in the applicant's absence, the resume

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and application must stand out. Following the simple guidelines provided in this lesson will help produce good quality resumes and applications.

H. Answers to Evaluation

1. d
2. c
3. b
4. c
5. d

6. A reference should have knowledge about an applicant's work experience, skill, and/or character and should not be related to him or her. A list of references should include the names, job titles, addresses, and telephone numbers of at least three people.

UNIT IV - PERSONAL DEVELOPMENT Name ______________________

Lesson 8: Resumes and Applications Date ______________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which items should appear first on a resume?

   a. Education and work experience
   b. Employment objectives
   c. Names and addresses of references
   d. Name, address, and telephone number

2. Which work experience is listed first on the resume?

   a. The one liked best
   b. The best experience
   c. The most recent experience
   d. The first work experience

3. When should you leave blanks on applications?

   a. When you have nothing to say
   b. You should not leave blanks
   c. If you do not like the question
   d. At the end of the page

4. Which of the following does not belong on a resume?

   a. Work experience
   b. Educational experience
   c. Height, weight, and nationality
   d. Name and telephone number

5. When should an employment objective be changed?

   a. Each time you update the resume
   b. Every six months
   c. Every year
   d. Each time you apply for a job

Complete the following short answer question.

6. What characteristics should a person serving as a reference have? What information should be included on a list of references?

Lesson 8: Resumes and Applications

Name ____________________________

Completing a Resume

Objective: Complete a resume to be used in applying for a job.

Put together a resume that you could use when applying for a job. Be sure to include all the information shown in the sample format shown below. List your references (personal and/or professional) on a separate page.

Name
Address
Telephone Number

Objective:

Education:

Work Experience:

Honors and Activities:

References: Available upon request

References

Name
Title and/or Company
Address
Telephone Number

Lesson 8: Resumes and Applications

Name ______________________________

Completing a Job Application

Objective: Complete an application for a job.

Using the form provided, complete a job application for a position of your choosing.

APPLICATION FOR EMPLOYMENT

Name: ______________________________ ______________ ______________
Last Middle First Social Security Number Date

Address: ______________________________ Home telephone: ______________

Position applying for: ______________ When available: ______________ Salary expected: ______________

Have you previously applied for work with us? ( ) Yes ( ) No If yes, when: ______________

Referred by (Name): ______________________________

Have you been convicted of a felony? ( ) Yes ( ) No If yes, describe: ______________

Are you a U.S. veteran? ( ) Yes ( ) No

Person to notify in case of emergency: ______________ Relationship: ______________ Phone: ______________

EDUCATIONAL DATA

School	Name	City/State	Month/Year From	Month/Year To	Degree/Grade Level Completed	Area of Specialty
Grade School						
High School						
College or University						
Graduate Studies						
Trade/ Business						
Special Skills (e.g., computer)					Typing Speed (WPM)	

All qualified applicants are considered regardless of race, color, religion, national origin, sex, age, or handicap.

CONTINUED ON REVERSE SIDE

RECORD OF PREVIOUS EMPLOYMENT

List employment including military service. List most recent employment first. Supporting documents (e.g., resume, transcript) may be attached.

Past Employers Company Name, Address, Phone	Dept(s). Worked	Supervisor(s) Name	Position(s) Held	Employed		Rate of Pay	Reason for Leaving
				From	To		

IV-92

May we contact your former employers? ( ) Yes ( ) No

This application will be retained in our active files for one (1) year only. If you wish to submit another application after this period of time, please feel free to do so.

PLEASE READ CAREFULLY AND SIGN

I agree to abide by all the rules of this company and not expose myself or other workers to unnecessary dangers. In the event of my employment, I understand that a physical exam may be required. It is understood that false statements on this application may result in my dismissal.

Signature of Applicant: ______________________ Date: ______________________

FOR EMPLOYER'S USE (AFTER EMPLOYED)

Division: ______________ Department: ______________ Position: ______________
Date Employed: ______________ Wage and Hour Status: ( ) Exempt ( ) Nonexempt ( ) Other: ______________
Salary: ______________ Date of Birth: ______________ Marital Status: ______________

Lesson 9: Interviewing for a Job

Competency/Objective: Explain how to interview for a job.

Study Questions

1. **How should a person dress for a job interview?**
2. **What are some good pointers to know before arriving at a job interview?**
3. **What are some good pointers to remember during a job interview?**
4. **What are some questions that might be asked during a job interview?**
5. **What are some questions that the person being interviewed should ask during a job interview?**
6. **What should a job applicant do after an interview?**
7. **What is the purpose of a follow-up letter?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IV.
2. Transparency Masters
    - a) TM 9.1: Questions Asked by Employers
    - b) TM 9.2: Questions To Ask Employers
3. Activity Sheets
    - a) AS 9.1: Mock Interview
    - b) AS 9.2: Evaluating the Job Interview (Instructor)

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UNIT IV - PERSONAL DEVELOPMENT

Lesson 9: Interviewing for a Job

TEACHING PROCEDURES

A. Review

As discussed in Lesson 8, resumes and applications must be of a high quality because they are important for job interviews. Resumes that are written in an easy-to-read style can be helpful in presenting oneself to prospective employers. After developing a resume, the next step is to apply for a job. This lesson will discuss what is involved in applying and interviewing for a job.

B. Motivation

1. Show one of the following videotapes available through the Missouri Vocational Resource Center. After viewing the video, discuss the content and how it is relevant to the students.

   a) *The Successful Job Interview*, Media Consultants.
   b) *Dynamic Interviewing*, AMS.

2. Before class, ask a student to prepare for a mock interview; suggest that he or she intentionally do a poor interview by acting inappropriately (chewing gum, slouching, using poor grammar, lying, answering with only one-word answers, etc.) Then interview the student in front of the class. After the interview, have the class discuss whether they would hire the person seeking the job. How would they improve on the person's interview?

C. Assignment

D. Supervised study

E. Discussion

1. Bring in an FFA jacket and a sport coat and ask students to explain why they are worn for different occasions (to create an image, an image of being well dressed and businesslike). Discuss how a job applicant's attire can influence the interviewer's attitude toward him or her.

   How should a person dress for a job interview?

   a) Dress appropriately for the job.
   b) Dress conservatively. Wear simple jewelry, if any, and a minimum of makeup.
   c) Wear polished shoes.
   d) Be neat and clean.
   e) Keep hair neat and of an appropriate length. Men should be clean-shaven or have well-trimmed facial hair.

2. Ask students how to prepare for a job interview. Ask them to discuss some pointers.

   What are some good pointers to know before arriving at a job interview?

   a) Research the company.
   b) Know what type of job is available.
   c) Know the interviewer's name and how to pronounce it.
   d) Practice interviewing.
      1) Practice with a teacher or administrator.

        2) Practice with a businessperson.
        3) Use a video camera to tape a practice interview.
    e) Bring a resume and references to the interview.
    f) Bring a black ink pen.
    g) Go to the interview alone.
    h) Arrive early.
    i) Clean your vehicle on the inside and outside.
    j) Drive carefully and within the speed limit.
    k) Be aware of major current events.

3. Interviews can be uncomfortable situations. Ask students to discuss techniques to improve job interviews.

What are some good pointers to remember during a job interview?

a) Make a good first impression.
b) Be prepared.
c) Give a firm handshake.
d) Be polite, using good manners.
e) Be a good listener.
f) Do not talk too much. Know when you have said enough.
g) Be positive. Do not talk negatively about previous jobs or school.
h) Maintain eye contact.
i) Do not smoke or chew gum or tobacco.
j) Ask questions if prompted.
k) Take cues as to when the interview is over.
l) Conclude the interview with a positive closing statement.

4. Have each student write down three good questions an interviewer might ask. Discuss the students' questions and the following questions, helping the students to come up with appropriate answers for them. TM 9.1 lists other questions that interviewers might ask.

What are some questions that might be asked during a job interview?

a) Appropriate questions
    1) What qualities do you have that will help you in this job?
    2) What are some of your faults?
    3) What are three adjectives that describe you?
    4) What do you want to be doing in five years?
    5) What have you done that makes you qualified for this job?
    6) Why are you interested in working for our company?
    7) What have you done that shows you can work with other people?
b) Inappropriate questions - Because of anti-discrimination laws, interviewers cannot ask questions about age, ethnic background, nationality, religion, disabilities, marital status, sexual orientation, political affiliation, and arrest record.

5. Discuss what types of questions should be asked to show true interest in the company. TM 9.2 lists additional questions that could be asked in interviews.

What are some questions that the person being interviewed should ask during a job interview?

a) What types of benefits are available?
b) What types of responsibilities will I be expected to fulfill?
c) What are the opportunities for advancement or an expansion of responsibilities?
d) What type of wage or salary range can be expected?
e) When will the position be filled?

6. Ask students what needs to be done after the job interview. Discuss what students should do after the interview. After discussing job interviews, divide the class into pairs and have them complete AS 9.1. Students should be encouraged to be creative when selecting possible jobs. Encourage improvement and learning, not just going through the motions. If possible, have a local businessperson conduct formal interviews with the students. He or she can use AS 9.2 to evaluate the interviews. AS 9.2 could also be used in conjunction with AS 9.1.

   What should a job applicant do after an interview?

   a) If a job is offered after the interview, asking for time to consider the offer is generally acceptable.
   b) Write a follow-up letter soon after the interview.
   c) Call the interviewer to express further interest in the job.

7. Ask the students what benefits they might receive from sending a potential employer a follow-up letter. Discuss the purpose of a follow-up letter.

   What is the purpose of a follow-up letter?

   a) To thank the potential employer for his or her time
   b) To express interest in the job (or a future job)
   c) To maintain contact with the potential employer

F. Other Activities

1. Ask the principal or superintendent to conduct mock interviews with the students. Students should make appointments to practice interviewing. This would make an excellent example of a real-life interview, stress included. Have the administrator write down suggestions for improvement.

2. The advisory council or FFA Alumni could conduct interviews as described above.

3. Have a personnel manager from an agricultural business talk to the class about interviewing techniques.

4. The instructor could do a mock interview with a student in front of the class.

5. Take students to the library and have them find background information about two companies using agricultural newspapers and magazines.

G. Conclusion

Finding a job opportunity is only part of the job hunt. Once possible job opportunities have been identified, one must go through the process of applying for the position. A very important part of this process is the interview. Being both mentally and physically prepared for the interview is important. Preparation includes doing background research on the company, practicing interviewing, and dressing appropriately for the interview. Do not waste the opportunity to make a good impression during an interview.

H. Answers to Evaluation

1. c
2. b
3. a
4. d

5. Answers may include any three of the following.

   - What qualities do you have that will help you in this job?
   - What are some of your faults?
   - What are three adjectives that describe you?
   - What do you want to be doing in five years?
   - What have you done that makes you qualified for this job?
   - Why are you interested in working for our company?
   - What have you done that shows you can work with other people?

6. Answers may include any of the following.

   - What types of benefits are available?
   - What types of responsibilities will I be expected to fulfill?
   - What are the opportunities for advancement or an expansion of responsibilities?
   - What type of wage or salary range can be expected?
   - When will the position be filled?

7. Because of anti-discrimination laws, interviewers cannot ask questions about age, ethnic background, nationality, religion, disabilities, marital status, sexual orientation, political affiliation, and arrest record.

8. c
9. a
10. d
11. b

UNIT IV - PERSONAL DEVELOPMENT Name ____________________

Lesson 9: Interviewing for a Job Date ____________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following should be done in a job interview?

   a. Bring a friend in case you have to wait.
   b. Be fashionably late (about 15 minutes).
   c. Wear appropriate clothing for the interview.
   d. Chew gum to keep your teeth from chattering.

2. Which of the following is not a step in the process of applying for a job?

   a. Contact the employer.
   b. Participate in FFA activities.
   c. Interview with the business.
   d. Follow up after the interview.

3. Which of the following should occur after the interview?

   a. Send a follow-up letter.
   b. Make the initial contact.
   c. Call the interviewer every other day until you get the job.
   d. Research the company.

4. Which of the following is not a point to remember when interviewing for a job?

   a. Make a good first impression.
   b. Give a firm handshake.
   c. Be polite and use good manners.
   d. Make sure you explain all of your good qualities.

Complete the following short answer questions.

5. What are three questions that might be asked during a job interview?

   a.

   b.

   c.

6. What is one question a prospective employee might ask during an interview?

7. What kinds of questions are inappropriate for prospective employers to ask during a job interview?

Match the jobs below with the most appropriate dress for an interview for that job. Use each answer only once.

8. _____ Bank teller
9. _____ Hired hand on a hog farm
10. _____ Salesperson at a hardware store
11. _____ Rarely appropriate

a. Nice jeans and shirt
b. Torn jeans and a concert T-shirt
c. Sport jacket, slacks, and white dress shirt or skirt, plain blouse, and suit jacket
d. Slacks and nice shirt or blouse

TM 9.1

Questions Asked by Employers

- What are your long-range career objectives?
- What specific goals, other than your career goals, have you established for yourself for the next ten years?
- What do you really want to do in life?
- Why did you choose this career?
- How do you determine or evaluate success?
- What motivates you to put forth your greatest effort?
- What do you know about our company?
- What do you think it takes to be successful in a company like ours?
- In what ways do you think you can make a contribution to our company?
- How do you work under pressure?
- What is most important to you in your job?
- What is one major problem you have encountered, and how did you deal with it?
- What have you learned from your mistakes?
- Why should I hire you?

Questions To Ask Employers

- What are the opportunities for personal growth?
- What are the challenges of the job?
- What makes your firm different from its competitors?
- What are the company's strengths and weaknesses?
- What do you expect from your new employees?
- What is the work environment like?
- How can you use my skills?
- What qualities are you looking for in your employees?
- What characteristics does a successful person at your company have?

Lesson 9: Interviewing for a Job

Name ______________________

Mock Interview

Objective: Gain practice with job interviews.

Activity Length:

10-15 minutes/student

Procedure:

1. Pair up with another student.
2. Prepare to interview your partner by making a list of standard interview questions.
3. Choose who will go first and perform the interview.
4. At the end of the interview, the interviewer should critique the performance of the applicant. Discuss areas in which he or she has done well and where improvement is needed.
5. Switch roles, with the interviewer becoming the interviewee.

Evaluating the Job Interview

Interview and evaluate the student as if he or she is actually applying for a position. Answer the following questions, using a scale on which 0 indicates unacceptable or unobserved and 5 indicates excellent.

1. Was the clothing clean, conservative, in style, and appropriate for the interview?

   0 1 2 3 4 5

2. Was the student's hair clean and neat?

   0 1 2 3 4 5

3. Was his or her voice positive, natural, and expressive?

   0 1 2 3 4 5

4. Was the student on time?

   0 1 2 3 4 5

5. Did he or she greet the interviewer with a smile and call the interviewer by name?

   0 1 2 3 4 5

6. Did the student introduce himself or herself confidently and shake hands firmly?

   0 1 2 3 4 5

7. Did the student wait to be asked to be seated?

   0 1 2 3 4 5

8. Did he or she exhibit interest in the job?

   0 1 2 3 4 5

9. Did the student listen carefully to the interviewer and maintain eye contact?

   0 1 2 3 4 5

10. Did he or she take an appropriate amount of time to think before answering questions?

    0 1 2 3 4 5

11. Did he or she answer questions briefly but thoroughly?

    0 1 2 3 4 5

12. Did the student exhibit tact and courtesy during the interview?

0 1 2 3 4 5

13. Did he or she demonstrate a sense of humor when appropriate?

0 1 2 3 4 5

14. Did the student ask questions about the job and its responsibilities and about general company policies?

0 1 2 3 4 5

15. Did the student thank the interviewer before leaving?

0 1 2 3 4 5

General comments:

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*Based on a performance evaluation provided by Tammy Bartholomew.

UNIT V - COMMUNICATION SKILLS

Lesson 1: Verbal and Nonverbal Communication

Competency/Objective: Utilize verbal and nonverbal communication skills, as well as effective listening.

Study Questions

1. **How is verbal communication used in agribusiness sales and marketing?**
2. **Why are effective listening skills vital to agribusiness sales and marketing?**
3. **What are some of the different forms of nonverbal communication?**
4. **How can nonverbal communication skills be used effectively in agribusiness sales and marketing?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit V.
2. Transparency Masters
    - a) TM 1.1: Types of Nonverbal Communication
    - b) TM 1.2: Effective Speaking
    - c) TM 1.3: Effective Listening
3. Activity Sheets
    - a) AS 1.1: Retaining Information
    - b) AS 1.2: Using Nonverbal Skills in a Selling Situation

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Lesson 1: Verbal and Nonverbal Communication

TEACHING PROCEDURES

A. Introduction

The proper use of communication is an integral part of agribusiness sales and marketing. This lesson will discuss how to identify and use communication skills to be successful in agribusiness. Verbal, nonverbal, and listening skills will be reviewed.

B. Motivation

1. Pass a statement around the room by whispering it in a student's ear and having him or her pass it to the next person. See how much the message has changed by the time it gets all the way around the room. This activity will illustrate how ineffective listening can alter the message the speaker is trying to send to the listener.

2. Use AS 1.1 to reinforce the importance of understanding what information a person retains and how he or she interprets what is retained. The instructor should read the story printed below, taking a maximum of 25 seconds. The questions should be answered in one minute.

   A man was walking in the city park one evening. He heard a dog bark in the bushes and turned his head to look. As he did, he ran into a woman walking along the same trail. As this happened, she dropped her keys. He knelt down to find them. She thanked him as he handed her the keys, and they both walked on.

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss what verbal communication is and the advantages in agribusiness sales of mastering it. Show the students TM 1.1 on effective speaking.

   How is verbal communication used in agribusiness sales and marketing?

   a) Verbal communication is any form of communication that consists of either spoken or written words.
   b) It forms the content of presentations, supplying the customer with technical information, facts about features/benefits, and information about problems or concerns in order to inform him or her about a product or service and persuade him or her to make a purchase.
   c) Jargon, slang, and industry terminology should be used carefully to avoid confusing the customer.
   d) The salesperson should not discuss the product too technically or too simply; both approaches may alienate, annoy, or lose the interest of the customer.

2. Discuss the importance of effective listening skills in agribusiness sales and marketing. Use TM 1.2 to help illustrate effective listening skills.

   Why are effective listening skills vital to agribusiness sales and marketing?

   a) To acquire information needed to make a sale

        1) Customer needs
        2) Customer concerns
        3) Signals about when to close the sale
    b) To be more aware of the customer's listening skills and anything that might cause a distraction that might hinder making a sale
        1) Environmental distractions (temperature, noise level, speaker's appearance)
        2) Distance between speaker and listener
        3) Lack of physical or mental preparation for listening
        4) Content distractions
            (a) Bias for/against the subject - The customer already has an opinion or feeling about the subject that colors how he or she perceives that subject and distracts him or her from the salesperson's message.
            (b) Terminology - Using new or complicated industry terminology that the customer does not understand can distract the customer as they try to understand a term.
            (c) Organization of presentation - A disorganized presentation can confuse a listener, clouding the message the salesperson is trying to convey.
            (d) Delivery of presentation - Poor delivery, which is the combination of terminology used, rate of speech, tone of voice, and nonverbal elements, can distract the customer from the content of the presentation.
    c) To be able to give and receive feedback, confirming the salesperson's understanding of the customer and the customer's understanding of the message of the sales presentation
        1) Nodding
        2) Confirming statements (e.g., "I understand.")
        3) Rephrasing or asking questions about ideas

3. Ask students to demonstrate types of nonverbal communication. Use TM 1.3.

What are some of the different forms of nonverbal communication?

a) Facial expressions
    1) Smiling or frowning
    2) Raising an eyebrow
    3) Wrinkling the forehead
b) Gestures
    1) Hand on hip
    2) Clenched fist
    3) Moving the hands while speaking
c) Body language
    1) Posture
    2) Stance
    3) Body position
d) Dress - care invested in and appropriateness of dress
e) Rate of speech - speed at which the words are spoken (quickly or slowly)
f) Tone of voice - pitch of voice (shrill, monotone, loud, soft)
g) Eye contact
    1) Looking someone in the eye
    2) Looking down
    3) Looking off into the distance

4. Discuss how nonverbal communication skills can be used effectively in agribusiness sales and marketing. Emphasize that the use of nonverbal communications skills will change with each audience, depending on the subject, the size of the audience, and the personality of the customer. The salesperson must be flexible and change with each presentation.

Note: The instructor may practice both extremes while leading the discussion. First, use no hand gestures, facial expressions, or eye contact to illustrate how easy it is to lose the interest of the audience. Then exaggerate hand gestures and facial expressions as much as possible to show how these actions can be distracting.

How can nonverbal communication skills be used effectively in agribusiness sales and marketing?

To reinforce the salesperson's own message in order to influence the customer or to interpret the customer's attitude

a) Facial expressions - reveal inner feelings
b) Gestures
    1) Emphasize points of the presentation
    2) Reveal attitudes
c) Body language - can show level of interest in the subject
d) Dress - can communicate attitude
e) Rate of speech
    1) Can make presentation interesting and easy to understand if appropriate
    2) Can reveal a customer's level of interest and attention
f) Tone of voice - can greatly affect how a message being sent or received is interpreted
g) Eye contact - Reveals the level of trust, confidence, and honesty among the people involved in the communications process (should be consistent, not constant, "staring down" the customer)

F. Other Activities

Pair up the students in the class. Have the students sit back to back, with one of the students in each pair facing the front of room. Show the students facing forward a picture of a simple object such as a domino, pencil, or pair of scissors. Have that student describe the object to his or her partner, who should attempt to draw it. This exercise tests communication and listening skills.

G. Conclusion

Communications skills are a vital part of agribusiness sales. Communication cannot be used effectively unless the person understands how to utilize verbal, nonverbal, and listening skills together. They are a package that cannot be separated, since each part of the process of communication relies heavily on the others. It is important to understand the components of the communication process in order to speak well, as well as to better understand what factors might help or hinder a person in receiving the message sent. The communication process is dynamic, changing with every person, each day, at each location. A salesperson should strive to always be aware of the communication process and constantly work to improve his or her skills.

H. Answers to Activity Sheets

AS 1.1

1. ?
2. F
3. F
4. T
5. F
6. F
7. T
8. F

I. Answers to Evaluation

1. Spoken, written
2. Facial expressions
3. Feedback
4. Distractions
5. Jargon, slang, industry terminology

6. Answers should include the following.

- Bias for/against the subject - The customer already has an opinion or feeling about the subject that colors how he or she perceives that subject and distracts him or her from the salesperson's message.
- Terminology - Using new or complicated industry terminology that the customer does not understand can distract the customer as they try to understand a term.
- Organization of presentation - A disorganized presentation can confuse a listener, clouding the message the salesperson is trying to convey.
- Delivery of presentation - Poor delivery, which is the combination of terminology used, rate of speech, tone of voice, and nonverbal elements, can distract the customer from the content of the presentation.

7. Answers may include any three of the following with an example.

- Facial expressions - smiling, frowning, raising an eyebrow, wrinkling the forehead
- Gestures - hand on hip, clenched fist, moving hands while speaking
- Body language - posture, stance, body position
- Rate of speech - speaking quickly or slowly
- Tone of voice - monotone, loud, or soft voice
- Eye contact - Staring someone in the eye, looking into the distance, looking down

8. "Stare down" a customer

UNIT V - COMMUNICATION SKILLS Name ______________________________

Lesson 1: Verbal and Nonverbal Communication Date ______________________________

EVALUATION

Complete the following statements by filling in the blanks.

1. Verbal communication is any form of communication that consists of _______________ or ________ words.

2. ________________ ________________ can reveal the inner feelings of people if they are interpreted appropriately.

3. A salesperson must give and look for ___________________ to confirm his or her understanding of the customer and the customer's understanding of the content of the sales presentation.

4. When giving a sales presentation, a salesperson must be aware of any ______________________ that could act as barriers to listening.

5. Salespeople should use __________________ , _____________________ , and __________________ ______________________ carefully in verbal communication to avoid confusing the customer.

Complete the following short answer questions.

6. What are the four content distractions described in the text? Briefly describe each one.

   a.

   b.

   c.

   d.

7. What are three of the six types of nonverbal communication? Give an example of each one.

a.

b.

c.

8. What is one thing a salesperson must not do to the customer when making eye contact?

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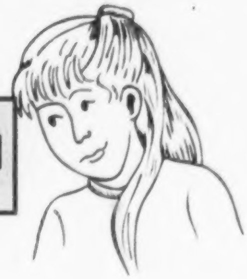
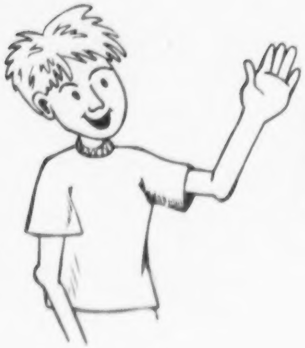
TM 1.1

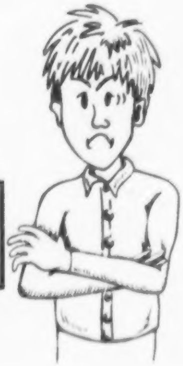
Types of Nonverbal Communication



FACIAL EXPRESSION



GESTURES

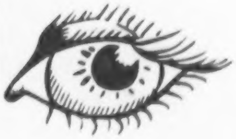


BODY LANGUAGE

TONE OF VOICE

RATE OF SPEECH

EYE CONTACT



EFFECTIVE SPEAKING

To speak more effectively, ask yourself:

- Am I using appropriate words and terminology to express the correct message to a customer?
- Am I presenting the appropriate amount of information and documentation to close the sale?
- Am I using terminology that is understandable to my customer?
- Am I spending the correct amount of time on each feature/benefit and looking for feedback from the customer?
- Am I getting good feedback from the customer to ensure the correct message is being received?
- Am I remaining objective--not offering personal opinion, but just relaying the facts to the customer?
- Am I giving the presentation in an organized, logical way, so that it is easy for the customer to understand the points of the presentation?
- Am I speaking at a good rate and tone and using appropriate body language?

EFFECTIVE LISTENING

To listen more effectively, ask yourself:

- What distractions might affect my listening?
- What is the purpose of the statement being made?
- What information do I need to retain? Do I need to take notes?
- How accurate are the facts being presented, and are they meaningful to the presentation?
- Is there any information being left out?
- What is the trust level I have with the speaker? Does this taint my listening?
- What am I drawing from the speaker (conclusions, inferences, etc.)?
- What feedback am I giving or going to give to send a message about my interest level and inform the speaker that I understand the message (asking questions, rephrasing the information, etc.)?

UNIT V - COMMUNICATION SKILLS AS 1.1

Lesson 1: Verbal and Nonverbal Communication Name_______________

Retaining Information

Objective: Evaluate the ability to absorb verbal communication.

Your instructor will read a short story to you. When he or she is finished, answer all statements you think are correct by marking the "True" column, all statements you think are incorrect by marking the "False" column, and all statements that you are unsure of by marking the "?" column. Be prepared to defend your answers (for example, an "?" answer may be given either because you could not remember the answer or because the story did not give enough information).

	TRUE	FALSE	?
1. It was dark outside.	______	______	______
2. The man saw the woman coming.	______	______	______
3. The dog barked from within the trees.	______	______	______
4. The man and woman were walking on a trail.	______	______	______
5. The man dropped his keys.	______	______	______
6. The woman found the keys.	______	______	______
7. The woman thanked the man.	______	______	______
8. They walked off together.	______	______	______

Lesson 1: Verbal and Nonverbal Communication Name ______________________

Using Nonverbal Skills in a Presentation

Objective: Utilize nonverbal communication skills in a selling situation.

Pick a subject to present to another person; you should know the subject well. Working with a partner, complete Part A, B, and C.

Part A

Student 1:

Prepare a presentation to present to your partner. Try to pick out what you think a person will find to be the most interesting aspects of this subject and emphasize them. Use a limited amount of nonverbal communication while presenting the information, speaking in a monotone voice with few or no hand gestures and little eye contact or facial expression.

Student 2:

Observe the presentation. Write down the pros and cons of the presentation. Write a description of your initial response to the presentation, including its effectiveness and how you felt about the presenter.

Part B

Student 1:

Do the same presentation as in Part A, but this time exaggerate the nonverbal elements of communication as much as possible. Try to push yourself to "go overboard" with voice fluctuations, hand gestures, facial expressions, and staring at your partner.

Student 2:

Observe and record your response as in Part A.

Part C

Student 1:

Consider what amount of nonverbal communication would be appropriate for this presentation. Then present your subject again.

Student 2:

Observe and record your response as in Part A and B.

Now reverse roles and repeat Part A, B, and C. Then complete Part D.

Part D

Discuss the impressions made by each presentation. Discuss what was and was not effective. Make any suggestions that you might have for the presenter, especially in regard to Part C. Remember, the presenter was to do his or her best in Part C, so if you found problems, tell the presenter so that he or she will be aware of them.

UNIT V - COMMUNICATION SKILLS

Lesson 2: Written Communication Skills in Agribusiness

Competency/Objective: Use written communication skills in the sales process.

Study Questions

1. **What are the various forms of written communication?**
2. **Why are effective written communication skills important in agribusiness?**
3. **What are the main components of business letters and memos?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit V.
2. Transparency Master
   a) TM 2.1: Today's Lesson
3. Activity Sheet
   a) AS 2.1: Writing a Business Letter

Lesson 2: Written Communication Skills in Agribusiness

TEACHING PROCEDURES

A. Review

As discussed in Lesson 1, verbal and nonverbal communication are vital components of the sales process. Verbal communication consists of the spoken and written word; nonverbal communication conveys meaning through facial expressions, gestures, body language, rate of speech, tone of voice, and eye contact. Both must be used effectively in order for the salesperson to be successful.

Utilizing effective written communication skills is important in the sales process because written forms of communication support and illustrate the information provided in the oral part of the sales presentation. This lesson will discuss the types of written communication most often used in sales, why effective written communication skills are important in agribusiness sales and marketing, and how to write a business letter or memo.

B. Motivation

Display TM 2.1 at the beginning of class. It provides an extreme example of the problems of spelling errors and lack of proofreading. Ask the class to identify the errors. Discuss what the class thought as they read through the paragraph. Point out that computer spell check and grammar check programs do not catch all errors. For example, using spell check would not have caught the problem with "discus" ("discuss") in the first line.

C. Assignment

Have students design a flyer for the school-based business/fund-raising activity.

D. Supervised Study

E. Discussion

1. Ask students to describe the different types of written communication they have used or seen. Discuss the types of written communication used in agribusiness sales and marketing.

   What are the various forms of written communication?

   a) Letters and memos
      1) Inform customers about existing or future products or changes in the company, such as payment plans, ordering policies, or special discounts
      2) Can be sent to an individual or mass mailed to all customers and potential customers
      3) Memos - used within the company to supply information to superiors and coworkers
   b) Sales proposals
      1) Prepared before the sales presentation to organize the material and ensure all the information is included
      2) Contain the product description, use, price, and other positive information about the product

- c) Reports
    - 1) Internal reports - any report sent to people within the company; usually contain information about a sales representative's activities, progress on individual projects or with customers, and future targets for sales
    - 2) External reports - any report sent to current or potential customers; usually contain information to update customers about activities involving the product or service that they are using, new products or services that will be on the market, or changes in the company that affect them
- d) Product analysis/information sheets
    - 1) Provide customers with specific information about a limited number of related products, such as cost, effectiveness, useability, and popularity of a product
    - 2) Utilized best with one-on-one presentations
- e) Manuals
    - 1) Provide detailed information about the sale, use, or promotion of a product
    - 2) Received by the salesperson from the company to aid him or her in the selling process
    - 3) Can be given directly to the customer or rewritten by the salesperson
- f) Bulletins and flyers
    - 1) Usually sent by mail
    - 2) Inform customers about a product/service, price changes, or upcoming events
- g) Demonstration materials
    - 1) Include charts, graphs, or other materials that a salesperson would use during presentations or demonstrations
    - 2) Should emphasize positive points and important facts about the product/service

2. Discuss the importance of effective written communication skills.

Why are effective written communication skills important in agribusiness?

- a) To support the oral part of the sales presentation
    - 1) Some customers prefer to see information rather than hearing it.
    - 2) Written communication may enable customers to absorb and retain information better because it is stated in "black and white."
    - 3) Customers can review information later, thus allowing them to become more familiar with the product/service.
- b) To reduce the chance of a misunderstanding between salesperson and customer
- c) To allow salespeople to maintain contact with customers through the mail
    - 1) A salesperson with a large territory cannot make frequent visits to customers and so must mail them information.
    - 2) The salesperson can keep a customer from feeling ignored or neglected, which may drive him or her to deal with competitors with more readily available salespeople.

3. Ask students to describe the components of a business letter and a memo. Have students complete AS 2.1 to allow them to practice writing effective business letters.

What are the main components of business letters and memos?

- a) Business letters
    - 1) Date
    - 2) Inside address
    - 3) Salutation
    - 4) Body

    - 5) Close
    - 6) Writer's identification
    - 7) Reference initials (if typed by someone else)
    - 8) Enclosure notation
    - 9) Copy notation
  - b) Memorandums
    - 1) Recipient
    - 2) Sender
    - 3) Date
    - 4) Subject line
    - 5) Message
    - 6) Reference initials (if typed by someone else)
    - 7) Copy notation

F. Other Activities

1. Have the students form peer review groups and critique the first draft of the business letter written for AS 2.1. The students should look for spelling and grammar errors, information that should be added or deleted, and problems with the format.

2. Have the students write one of the letters discussed in the previous unit--a letter of inquiry, cover letter, or follow-up letter.

G. Conclusion

Effective written communication can have a large impact on the sales process. Several forms of written communication are used by salespeople, and each sales arena will utilize them differently. The salesperson needs to be familiar with them all so that he or she will be comfortable using them.

H. Answers to Evaluation

1. c
2. b
3. d

4. Answers may include any four of the following: date, inside address, salutation, body, close, writer's identification, reference initials, enclosure notation, copy notation.

5. Answers may include any three of the following: recipient, sender, date, subject line, message, reference initials, copy notation.

6. Written communication skills are important in agribusiness because written communications are used to support the oral part of the sales presentation, to reduce the chance of a misunderstanding between salesperson and customer, and to allow salespeople to maintain contact with customers through the mail.

UNIT V - COMMUNICATION SKILLS Name ______________________________

Lesson 2: Written Communication Skills in Agribusiness Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following types of written communication is not seen by customers?

   a. Manuals
   b. Bulletins and flyers
   c. Internal reports
   d. Demonstration materials

2. A sales proposal should:

   a. Be very long and detailed.
   b. Be completed before a presentation.
   c. Be vague with little detail.
   d. Be put together without organization.

3. Which of the following provide customers with specific information about a limited number of related products?

   a. Manuals
   b. Demonstration materials
   c. Business letters
   d. Product analysis/information sheets

Complete the following short answer questions.

4. What are four of the components of a business letter?

   a.

   b.

   c.

   d.

5. What are three of the components of a memo?

   a.

   b.

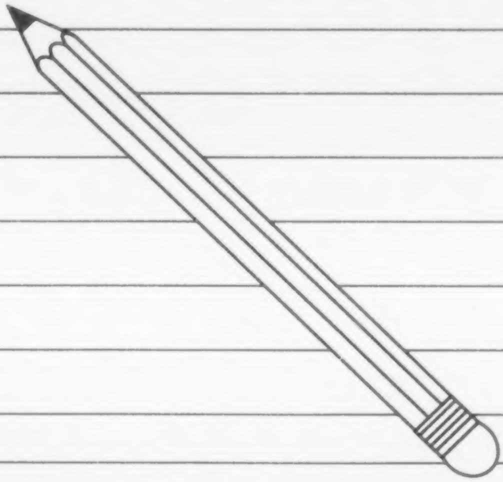
   c.

6. What are three reasons why effective written communication skills are important in agribusiness?

TM 2.1

Today's Lesson

Today we will discus the types of written comunication that are used in agribusiness selas. Written work should be accruate and professional. different forms of written communication will be used by different companys, you should be familiat with the variuos forms that may be encountered in a sales carreer.



Lesson 2: Written Communication Skills in Agribusiness Name ______________________________

Writing a Business Letter

Objective: Write an effective business letter.

Select a product or service (the product selected for AS 1.1 in Lesson 1 may be used). Choose a person in your community who might be a customer for this product or service. If possible, find out information about the chosen individual so you can write a letter to specifically address him or her. After these steps are completed, write a business letter to this person. Make sure that the letter states a specific purpose, gives a time for personal contact, and uses an attention-getter. Type the letter, using the format provided in the student reference.

UNIT V - COMMUNICATION SKILLS

Lesson 3: Using Communication Technology

Competency/Objective: Describe the proper use of communication technology.

Study Questions

1. **What are the various types of electronic communications systems?**
2. **How are electronic communications devices used?**
3. **What is proper telephone etiquette?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit V.
2. Activity Sheet
    a) AS 3.1: Using Telephone Skills

Lesson 3: Using Communication Technology

TEACHING PROCEDURES

A. Review

Several forms of written communication used in the sales process were discussed in the last lesson. In order to use them effectively, the salesperson must have good written communication skills. The use of modern communications technology is becoming more and more prevalent in agribusiness sales, and the sales representative should be familiar with the more commonly used types. This lesson will describe several types of electronic communications systems and the proper way to use them in the sales process.

B. Motivation

Discuss the ways in which computers are used in agribusiness sales (i.e., storing information, form letters, etc.). Demonstrate how much time can be saved by having students time how long it takes you to type a short letter on the computer. Then use a database of student names to print a copy for each student. Ask students to calculate how long it would have taken you to type each letter.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students to list and describe the different types of electronic communications systems.

   What are the various types of electronic communications systems?

   a) Voice mail
   b) Facsimile, or fax, machine
   c) Computers and/or word processors
   d) E-mail
   e) Internet
   f) Intranet
   g) Telephone/cellular phone

2. Discuss how electronic communications technology is used in agribusiness

   How are electronic communications devices used?

   a) Voice mail
      1) Internally for informing members of upper and lower management and field sales staff about current activities, changes, or news
      2) Externally for taking messages and orders and confirming upcoming activities
   b) Facsimile/fax - Sending correspondence over the telephone line that might otherwise be mailed
   c) Computers and word processors
      1) Typing reports
      2) Creating spreadsheets
      3) Storing product and customer information
      4) Developing time schedules and calendars
      5) Producing graphs, charts, and other visual aids

d) E-mail
  1) Internally for transmitting reports, messages, and other information between employees
  2) Externally for transmitting information to customers

e) Internet
  1) Obtaining current information about the industry, government, or other areas that may affect the company or its customers, the product, or future sales of the product
  2) Communicating with others around the world about sales, skills, or selling obstacles

f) Intranet - used for sharing many different types of company information (for example, presentations, policies, and employee training manuals) between all the members of the network

g) Telephone/cellular phone
  1) Setting up and changing appointments - The main use for the cellular phone is to notify customers of an appointment change
  2) Prospecting for new business
  3) Following-up on sales
  4) Maintaining customer relations

3. Discuss the etiquette involved in using the telephone properly in agribusiness. Each student should understand the importance of acting appropriately on the telephone when conducting business. Pair up students to do AS 3.1.

What is proper telephone etiquette?

a) Attempt to identify the decision maker before calling and specifically ask to speak to that person. If unsure who the decision maker is, ask to speak with the person in charge of making purchasing decisions.
b) Do not be rude or degrading when talking to support staff.
c) Inform the decision maker about the call, explaining its purpose and the amount of time it will take; find out whether he or she has time to listen.
d) Keep telephone calls short.
e) Briefly discuss the purpose of the call.
f) Listen for feedback.
g) Close by concluding the purpose.
h) Use a pleasant voice.
i) ALWAYS BE POLITE.
  1) Do not interrupt.
  2) Do not be rude or pushy.
  3) Do not hang up on the customer/prospect.

F. Other Activities

1. Have students obtain information about a product or service from the Internet. This activity will illustrate how easy it is to market products over the Internet.

2. Have students send an e-mail message to someone or some group. Each student should send his or her own message, if possible.

G. Conclusion

The use of electronic communications systems is widespread in agribusiness sales. Because of the greater use of these technologies due to improvements and lower prices, salespeople need to be aware of the different types of systems and how to best utilize them in the sales process. These systems can help salespeople be better organized and more efficient in their use of time.

H. Answers to Evaluation

1. b
2. a
3. a

4. Setting up and changing appointments, prospecting for new business, following up on sales, and maintaining customer relations

5. Used internally to transmit reports, messages, and other information between employees; used externally to transmit information to customers

6. Obtaining current information about the industry, government, or other areas that may affect sales; communicating with others

7. Answers may include any five of the following: attempt to identify the decision maker before calling and specifically ask to speak to that person; do not be rude or degrading when talking to support staff; inform the decision maker about the call, explaining its purpose and the amount of time it will take and finding out whether he or she has time to listen; keep telephone calls short; briefly discuss the purpose of the call; listen for feedback; close by concluding the purpose; use a pleasant voice; always be polite.

UNIT V - COMMUNICATION SKILLS

Name ______________________________

Lesson 3: Using Communication Technology

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What is the electronic communications system most frequently used by salespeople?

   a. Voice mail
   b. Telephone
   c. Internet
   d. Facsimile

2. What type of electronic communications system is used to send correspondence over the telephone line that might otherwise be mailed?

   a. Facsimile
   b. Word processor
   c. Internet
   d. Voice mail

3. What type of electronic communications system is used to record messages?

   a. Voice mail
   b. Telephone
   c. Intranet
   d. Internet

Complete the following short answer questions.

4. What are four tasks that the telephone can be used to do?

   a.

   b.

   c.

   d.

5. What are two uses of e-mail?

   a.

   b.

6. What are two uses of the Internet?

   a.

   b.

7. What are five rules of telephone etiquette?

   a.

   b.

   c.

   d.

   e.

Lesson 3: Using Communication Technology

Name ______________________________

Using Telephone Skills

Objective: Use proper techniques for communicating by telephone.

Activity Length:

Part A: 20-30 minutes (preferably outside of class)
Part B: 10-15 minutes
Part C: 10-15 minutes

Materials and Equipment:

Telephone lines (in separate rooms, if possible)

Procedure:

Part A: Work with a partner. One of you will be the customer/prospect and the other will be the salesperson. Select a product or service to sell and make an outline of the information to be covered during the sales call, including an introduction of the caller, company, and the product or service, interesting points concerning the product, and any additional notes that a salesperson might find helpful. The "salesperson" will also want to write down any possible objections that he or she may run into during the sales call and the responses that may be given.

Part B: Make the sales call. If necessary, sit where you cannot see your partner to avoid face to face contact.

Student 1 (Salesperson):

Make a call to the customer/prospect trying to sell the product or service. Use the techniques discussed in the text: give an introduction, state the length and purpose of the call and get approval from the customer/prospect to continue, discuss the purpose of the call, look for feedback, and close the call.

Student 2 (Customer/prospect)

When you receive the call, note the introduction, statement of the purpose and length of call, your approval to continue the call, whether the purpose is discussed in an organized manner, whether the salesperson gives and looks for feedback, and an appropriate close to the call. Also consider the caller's use of telephone etiquette. Does the salesperson interrupt? How is his or her voice (pleasant, expressive, monotone, loud, soft, etc.)? How does he or she end the call (i.e., hang up)? Evaluate the use of telephone skills by filling out the checklist provided.

Part C: Once the checklist is completed, switch roles and perform the activity again.

FORMAT

Introduction of self, company, and product/service

____ Poor ____ Good ____ Excellent

Statement of purpose of call

____ Yes ____ No

Statement of anticipated length of call

____ Yes ____ No

If yes, was the call completed within this amount of time?

____ Yes ____ No

Customer approval of call requested?

____ Yes ____ No

Purpose of call discussed in an organized manner

____ Poor ____ Good ____ Excellent

Feedback used appropriately

____ Poor ____ Good ____ Excellent

Close of the call

____ Poor ____ Good ____ Excellent

ETIQUETTE

Interruptions by salesperson

____ Yes ____ No

Voice

____ Poor ____ Good ____ Excellent

Did the salesperson hang up on the customer?

____ Yes ____ No

Overall impression of the effectiveness of the sales call

____ Poor ____ Good ____ Excellent

UNIT VI - PREPARING FOR A SALE

Lesson 1: Selling Environments

Competency/Objective: Differentiate between selling environments and the salesperson's role in each of these environments.

Study Questions

1. **What are the different selling environments?**
2. **What is a salesperson's role in a retail situation?**
3. **What is a salesperson's role in a wholesale situation?**
4. **What is a salesperson's role in the processing industry?**
5. **What is a salesperson's role in selling directly to the consumer?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VI.

UNIT VI - PREPARING FOR A SALE

Lesson 1: Selling Environments

TEACHING PROCEDURE

A. Introduction

A salesperson must be able to recognize different selling environments because in each situation the salesperson has different responsibilities and must use techniques that are unique to that environment. This lesson will identify the selling environments in which agribusiness sales representatives most commonly work.

B. Motivation

Ask the students to name some places where sales occur and have them try to identify the selling environment in which they think each belongs. Discuss their examples and the different types of selling environments.

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss how selling environments differ. Have students list some additional examples for each selling environment.

   What are the different selling environments?

   a) Retail sales - market in which a product is sold to the final consumer (e.g., feed stores, lumber yards, hardware stores, implement dealerships)
   b) Wholesale sales - market in which a wholesaler purchases a product in bulk with the intention of dividing it into smaller portions to sell to retailers or final consumers (e.g., Sam's Wholesale Clubs, feed distributors)
   c) Processing/industrial sales - market in which a salesperson sells either services or inputs like raw materials or processing equipment to a manufacturer to produce a saleable product (e.g., grain elevators, feed mills, implement manufacturers)
   d) Direct sales - sales made directly from the salesperson to the final consumer at the consumer's home or business (e.g., door-to-door sales for insurance, direct feed or seed sales); can also take place through the Internet through a web site on which orders for products can be placed

2. Have students discuss what they think the duties of a retail salesperson are.

   What is a salesperson's role in a retail situation?

   a) Calls on the business frequently to maintain a good relationship with its owners, employees, and customers
   b) Helps the business set up promotions and advertising
      1) A company may have standard promotions and advertisements established for a new product, an existing product, or an improved feature of an existing product.
      2) The salesperson may need to work with the retailer on an individualized promotion or advertisement.

c) Educates employees of the business - The salesperson must ensure that all people involved in the selling process fully understand the product, its features and benefits, and the best selling techniques.

d) Helps deal with customer complaints and questions

   1) This is usually the most common and difficult task for the salesperson.
   2) The salesperson may need to give a refund or a discount.
   3) Customers may feel more reassured if they hear information directly from the company representative rather than from the retailer, so the salesperson should make himself or herself readily available to the customer to answer questions.

3. Ask students to describe the tasks of a wholesale salesperson.

What is a salesperson's role in a wholesale situation?

a) Makes frequent visits to the wholesaler
b) Makes contact with the customers to answer questions or provide support
c) Attempts to make sales to the final customer or retailer
d) Not involved in extensive advertising
e) Responsible for getting the orders placed and deliveries made quickly and accurately so the wholesaler does not run out of a product

4. Have students discuss what a salesperson in the processing industry would do.

What is a salesperson's role in the processing industry?

a) Does not visit customers often because territories are large
b) Makes large but infrequent sales
c) Must answer very specific, detailed questions, especially when selling equipment, so the salesperson must be more highly trained in the technical aspects of the product or service
d) Deals with fewer products because he or she must focus on acquiring specialized product and market knowledge and because the sales process is time-consuming

5. Ask students if they have ever seen a direct sales presentation. Discuss how direct sales differs from the other selling environments.

What is a salesperson's role in selling directly to the consumer?

a) Has duties similar to those applied in the retail sales environment--conducting sales promotions and advertising, educating others about the product, and dealing with customer complaints and questions
b) Responsible for making sales through sales presentations

F. Other Activities

1. Have students list local businesses and then identify the type of selling environment for each one.

2. Have each student contact someone who holds a sales position and ask for permission to interview him or her. The student should explore what the person does as a sales representative. Each student should make a report to the class about what they learned in the interview. Questions asked could include the following.

   - What do you sell?
   - Who are your customers?
   - What type of hours does this job require?
   - How much traveling do you do?
   - Do you sell face-to-face, over the phone, etc.?

3. Get permission for students to shadow salespeople for at least half a day. The instructor may want to pair or group the students together. Students should make a report to the class about what they learned during the job shadowing experience.

G. Conclusion

In the field of agribusiness sales, a salesperson may be involved in retail, wholesale, processing, or direct sales environments, either individually or in combination. Therefore, people interested in sales positions should be familiar with and understand the salesperson's role in each of these selling environments. This knowledge will allow potential salespeople to select the areas in which they want to work and help them become successful.

H. Answers to Evaluation

1. d
2. b
3. d
4. c
5. d
6. a

Name ______________________________

Lesson 1: Selling Environments

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. The most common and difficult task of the salesperson in a retail situation is:

   a. Calling on the retail business.
   b. Setting up promotions and advertising.
   c. Educating employees of the business.
   d. Dealing with customer complaints.

2. In the processing industry, all of the following are true of the salesperson's role except:

   a. Customers are not seen frequently.
   b. Sales tend to be very large in terms of the amount of money and occur frequently.
   c. The salesperson must know very specific, detailed information about the product.
   d. Sales territories tend to be much larger.

3. The salesperson's duties in a wholesale situation:

   a. Do not involve making frequent visits to the business.
   b. Do not involve making sales to the final customer.
   c. Do not involve answering questions from customers.
   d. Do not involve extensive promotional activities.

4. The sales environment in which raw materials are sold to be used to produce a saleable product is:

   a. Retail sales.
   b. Wholesale sales.
   c. Processing sales.
   d. Direct sales.

5. Which of the following is not involved in making direct sales to consumers?

   a. Makes sales presentations to the final consumer
   b. Setting up promotions and advertising
   c. Dealing with customer complaints and questions
   d. Teaching employees how to make sales

6. Which of the following businesses are examples of the wholesale selling environment?

   a. Feed distributors
   b. Feed mills
   c. Grain elevators
   d. Lumber yards

UNIT VI - PREPARING FOR A SALE

Lesson 2: Identifying Different Communication Styles

Competency/Objective: Identify different communication styles and use this information to improve the sales presentation technique.

Study Questions

1. **What are the different communication styles?**
2. **Why is it important to understand the different communication styles?**
3. **How does the customer's communication style affect the salesperson's presentation?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VI.
2. Transparency Master
    a) TM 2.1: Communication Styles Matrix

Lesson 2: Identifying Different Communication Styles

TEACHING PROCEDURES

A. Review

Lesson 1 discussed the different selling environments, including retail, wholesale, processing/industrial, and direct sales. Each of these environments has unique factors that must be considered when making the sale. To be successful in sales, the salesperson must not only understand the selling environment but also identify both his or her own and the customer's communication style. This lesson will describe the typical characteristics of each style and suggest effective presentation techniques.

B. Motivation

1. Ask students to write down words they believe describe how they react to and communicate with others. Also have each student do a list for the person sitting to his or her right (to the best of his or her ability). Then ask the students if they have ever had problems getting along with other people (friends, coworkers, employers, etc.). Ask why they thought there were conflicts. Pick students to read their lists aloud and discuss how their descriptions of themselves contrast with other students' descriptions of them. Point out that these differences signal different communication styles.

2. Have students take a personality test. A test is available online at http://www.keirsey.com/cgi-bin/keirsey/newkts.cgi (an official site) or http://www.sunsite.unc.edu/jembin/mb.pl.

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss the four types of communication styles. Emphasize that every person falls somewhere within these four categories. Have them try to identify in which of the four each of their family members belong.

What are the different communication styles?

a) Analyzer
    1) Lower in aggressiveness and higher in formality
    2) Prefers detailed data
    3) Takes more time to digest information and make a decision
    4) Shows little emotion and is calm and quiet
    5) Task-oriented
b) Controller
    1) Higher in aggressiveness and formality
    2) Prefers quick decisions and immediate action
    3) Task-oriented and motivated, efficient and thorough, and very organized
    4) Impatient and unemotional
    5) Prefers to be in control of decisions; seen as a decision maker
c) Promoter
    1) Higher in aggressiveness and lower in formality
    2) Enthusiastic, expressive, and energetic
    3) People-oriented; perceived as talkative

    4) Creative
    5) Usually stimulated by ego; responds to appeals to his or her reputation
  d) Supporter
    1) Lower in aggressiveness and formality
    2) Friendly, cooperative, open-minded, and empathetic
    3) People-oriented; considered to be a true team player

2. Have students identify the reasons a salesperson would want to understand the different communication styles.

   Why is it important to understand the different communication styles?

   a) The more knowledgeable the salesperson is about the customer's style, the more effective the sales presentation will be, because it will be customized.
   b) Customizing the presentation allows the customer to retain the information and message the salesperson is conveying.

3. Ask students from each of the four categories what they think a salesperson would have to do (or should not do) to appeal to them. Discuss how a sales presentation might change depending on the customer's style.

   How does the customer's communication style affect the salesperson's presentation?

   a) Analyzer
      1) Present very detailed information to appeal to the customer's desire for complete and accurate information, showing proof of reliable research, detailed reports, and guarantees.
      2) Present information in a formal, businesslike manner.
      3) In the presentation, adopt a problem-solving approach.
      4) Give analyzers time to make a decision.
   b) Controller
      1) Use a businesslike manner.
      2) Make a direct, fast-paced presentation.
      3) Include information on saving time and money.
      4) Discuss the purchase in terms of "winning."
      5) Convince the customer that the product is a good investment without overselling it; cover its features and benefits, discuss the points thoroughly and quickly, and finish before he or she gets bored.
      6) Make the focus of the presentation a choice or decision over which the customer has control.
   c) Promoter
      1) Attempt to build a personal relationship with the customer.
      2) Make an inspirational, stimulating, dynamic, fast-paced presentation.
      3) Do not include too many details or spend too much time on important points.
      4) Make an imaginative presentation to appeal to the customer's creativity.
      5) Appeal to the customer's ego by stressing what the customer will gain with the purchase of the product.
   d) Supporter
      1) Appeal to the customer's desire for a personal relationship.
      2) Make the presentation casual and helpful by being specific and walk the customer through specific features and benefits, explaining the positive results of a purchase.
      3) Design the presentation to make him or her feel good.
      4) Avoid conflict.

F. Other Activities

1. Pair up students and have them attempt to evaluate the other's communication style, much as a salesperson would that of a new customer.

2. Have students search the Internet for more information about personality styles.

G. Conclusion

Understanding another individual's communication style is an important part of the sales process. It allows a salesperson to adjust his or her presentation so that the customer is more comfortable and receptive to new information. Understanding communication styles is also useful so that customer reactions can be predicted and prepared for before the presentation.

H. Answers to Evaluation

1. a
2. c
3. b
4. a
5. d
6. c

7. The more knowledgeable the salesperson is about the customer's style, the more effective the sales presentation will be, because it can be customized. Customizing the presentation allows the customer to retain the information and message the salesperson is conveying.

8. Answers should include three of the following: lower in aggressiveness and higher in formality, prefers detailed data, takes more time to digest information and make a decision, shows little emotion and is calm and quiet, is task-oriented. The presentation should consist of very detailed information. It should appeal to the customer's desire for complete and accurate information by showing proof of reliable research, detailed reports, and guarantees. The information should be presented in a formal, businesslike manner. In the presentation, the salesperson should adopt a problem-solving approach. The analyzer should be given time to make a decision.

UNIT VI - PREPARING FOR A SALE

Name______________________________

Lesson 2: Identifying Different Communication Styles

Date______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following describes a controller?

   a. Higher on the aggressiveness and formality scales
   b. Higher on the aggressiveness scale and lower on the formality scale
   c. People-oriented; perceived as talkative
   d. Responds to appeals to his or her reputation

2. What should be done in a presentation designed for a promoter?

   a. Appeal to his or her concern for accuracy and complete information.
   b. Focus the presentation on him or her making a choice or decision.
   c. Appeal to the customer's ego by stressing what he or she will gain.
   d. Be specific and walk him or her through specific features and benefits.

3. The analyzer:

   a. Prefers to decide quickly.
   b. Shows little emotion and is calm and quiet.
   c. Responds to appeals to his or her reputation.
   d. Is seen as a true team player.

4. How should a sales presentation be structured to appeal to the supporter?

   a. Avoid conflict in the presentation.
   b. Discuss the product in terms of "winning."
   c. Do not spend too much time on important points.
   d. Make a fast-paced presentation.

5. When putting together a presentation for the controller, do not:

   a. Approach him or her in a businesslike manner.
   b. Make a direct and fast-paced presentation.
   c. Discuss the product in terms of "winning."
   d. Approach him or her more personally and informally.

6. The promoter tends to:

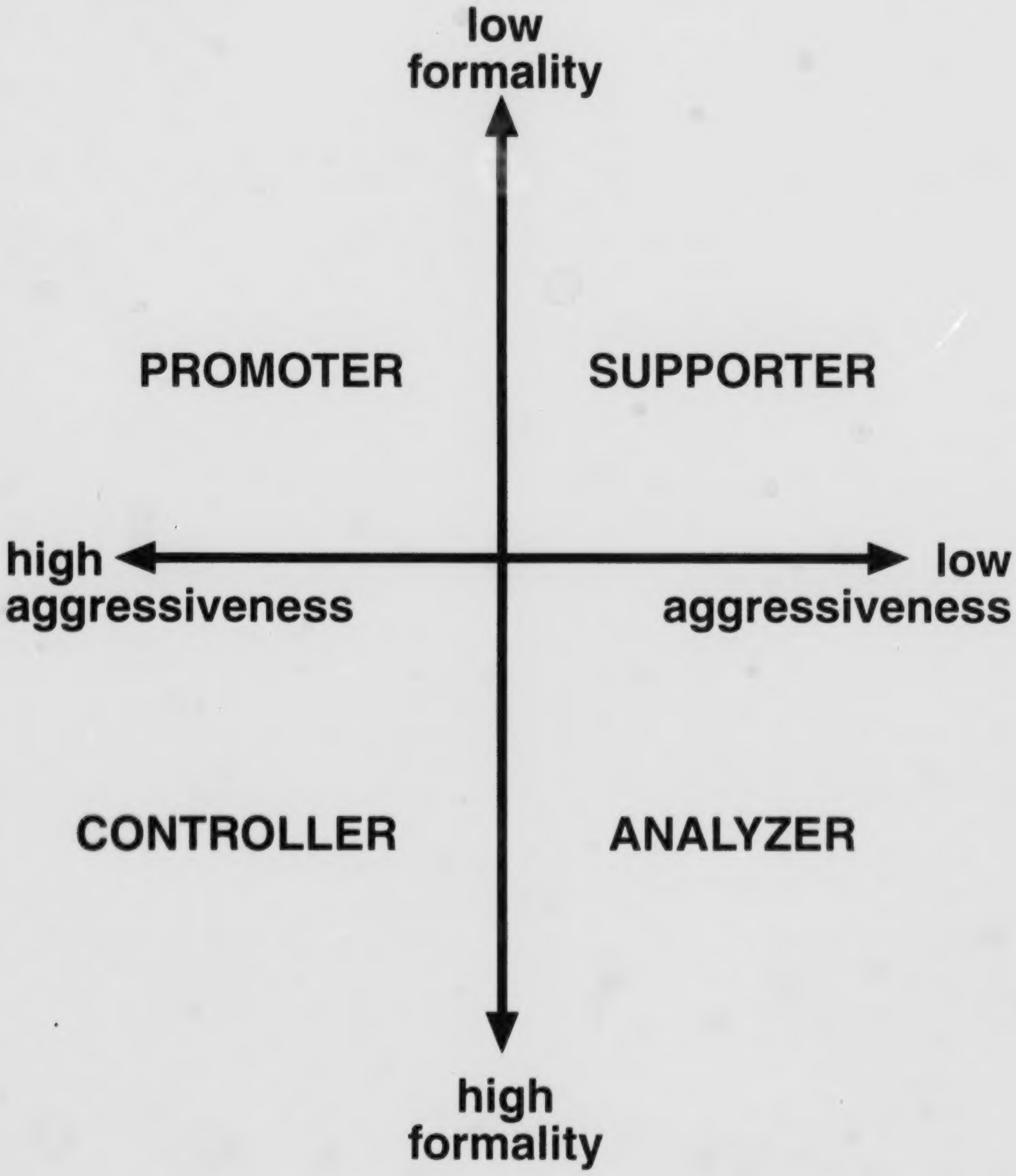
   a. Be higher on the aggressiveness scale and higher on the formality scale.
   b. Prefer a great deal of very detailed data
   c. Be higher on the aggressiveness scale and lower on the formality scale.
   d. Make decisions quickly and take immediate action.

Complete the following short answer questions.

7. Why is it important for a salesperson to understand the different communication styles?

8. What are three characteristics of the analyzer? How should the presentation be designed to appeal to this customer?

Communication Styles Matrix


low formality
PROMOTER
SUPPORTER
high aggressiveness
low aggressiveness
CONTROLLER
ANALYZER
high formality

UNIT VI - PREPARING FOR A SALE

Lesson 3: Motives for Making Purchases

Competency/Objective: Describe the factors that motivate a person to make purchases and how to identify these factors in an individual.

Study Questions

1. **What is Maslow's Hierarchy of Needs?**
2. **What are the steps people go through when deciding to make a purchase?**
3. **How are the needs and wants of the customer identified by the salesperson?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VI.
2. Activity Sheet
    a) AS 3.1: Deciding to Make a Purchase

UNIT VI - PREPARING FOR A SALE

Lesson 3: Motives for Making Purchases

TEACHING PROCEDURES

A. Review

The last lesson contained information about different communication styles and how a sales presentation can be modified to match each style. This lesson will discuss the motivation that underlies a customer's decision to make a purchase. The salesperson needs this information to understand the best way to approach customers in a sales situation to motivate them to buy the product or service. If a sales representative is not able to recognize what motivates a particular customer, his or her chances of making a sale are lessened.

B. Motivation

Have each student make a list of everything that he or she has purchased in the last week. Discuss why they bought the different items on the list.

C. Assignment

D. Supervised Study

E. Discussion

1. Discuss Maslow's Hierarchy of Needs. Have students refer back to the lists of purchases they did for the motivation and write down what level of need each purchase satisfied. Discuss the different levels identified on their lists.

   What is Maslow's Hierarchy of Needs?

   a) Maslow's hierarchy describes people's needs and how their needs motivate them to act.
   b) It has five levels.
      1) First level - basic physiological needs, including food, water, sleep, and shelter
      2) Second level - need for safety and security (to feel physically and emotionally safe)
      3) Third level - social needs, involving the need to belong to a group or society
      4) Fourth level - need for esteem, involving the need for self-respect and respect from others
      5) Fifth level - need for self-actualization, or full realization of personal potential
   c) A person will not normally move to a higher level without satisfying lower-level needs first.
   d) A salesperson can help customers fulfill their needs so that they are prepared to purchase the salesperson's products.
   e) The hierarchy helps the salesperson understand what sales approaches might attract the customer by appealing to his or her current level of needs.

2. Ask students to think about the last significant purchases they made. How did they decide to spend money on those particular items? Discuss the steps in making a purchase.

   What are the steps people go through when deciding to make a purchase?

   a) Customer recognition of a need or a problem
      1) This must occur for the customer to be motivated to buy.
      2) The salesperson can aid the customer with identification, if necessary.

        3) The salesperson should never create the impression that a need exists when it does not; this can severely damage the long-term relationship between the salesperson and the customer.
    b) Identification of possible solutions and who can provide these solutions
        1) Customers may find the possible solutions in several ways.
            (a) Talking to others with similar needs and problems
            (b) Looking at advertisements for what is on the market
            (c) Reviewing experiences that they have had with a particular company, salesperson, or product
        2) The salesperson can help a customer and build a better relationship with him or her.
            (a) Providing information
            (b) Answering questions
            (c) Customizing the product to the customer
    c) Selection of the best solution
        1) If a product fits the customer's needs and the salesperson has established a good relationship with him or her, the customer is more likely to purchase it.
        2) The salesperson should point out the product features that will benefit the customer.
        3) The customer must analyze the economics of the solution; product price can be a limiting factor for many customers.

3. Ask students again to consider the last significant purchases they made. Did they satisfy needs or wants? If salespeople assisted them in making the purchases, have them try to identify either how they tried to determine their customer's needs or wants or how they responded to them. Discuss how the perceived needs and wants of the customer are determined by a salesperson. Have students complete AS 3.1.

How are the needs and wants of the customer identified by the salesperson?

    a) Ask probing questions to determine the customer's needs and wants.
        1) Get the customer involved in a conversation.
        2) Allow the customer to discuss problems and solutions so the salesperson can begin to identify possible needs, wants, and motivations.
    b) Allow the customer enough time to talk to gain insight into needs, wants, and motivations.
    c) Spend a significant amount of time with the customer to learn more.

F. Other Activities

1. Have the students write down five probing questions that could be used to obtain information about a customer's wants and needs. Then ask the students to read them aloud. Have the class discuss the quality of each one.

2. Contact a reputable salesperson and have him or her visit the class and discuss how to identify the wants and needs of a customer.

G. Conclusion

Salespeople must understand what factors motivate people to act so that they can better understand how to motivate customers to make a purchase. Knowing how to identify these factors and customize the presentation to the motivations of each particular customer will allow the salesperson to be more successful. Customer motivation is a key factor to consider when putting together a sales presentation.

H. Answers to Evaluation

1. b
2. c
3. d

4. a
5. c
6. e
7. d
8. b

9. The salesperson should ask probing questions to determine the customer's wants and needs. The questions get the customer involved in a conversation and allow him or her to discuss problems and solutions so the salesperson can begin to identify possible needs, wants, and motivations.

UNIT VI - PREPARING FOR A SALE　　Name ____________________

Lesson 3:　Motives for Making Purchases　　Date ____________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. All of the following are steps a customer goes through when deciding to make a purchase except:
    a. Identification of who can provide a solution.
    b. Identification of future problems.
    c. Identification of possible solutions.
    d. Identification of a need or problem.

2. Which of the following is not a way that a customer may determine a solution to a problem when deciding whether to make a purchase?
    a. Reviewing experiences with a particular company
    b. Talking to others with similar needs or problems
    c. Personalizing a particular product of a company
    d. Looking at advertisements for what is on the market

3. When will a person attempt to satisfy upper-level needs?
    a. After satisfying the need for self-actualization
    b. When he or she is motivated to change
    c. When the salesperson is very persuasive
    d. After satisfying lower-level needs

Rank the needs listed below according to Maslow's Hierarchy of Needs by filling in the blank with the appropriate letter.

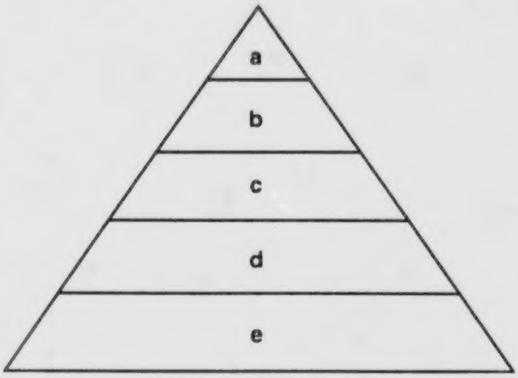
4. ____ Need for self-actualization

5. ____ Social needs

6. ____ Physiological needs

7. ____ Need for safety and security

8. ____ Need for esteem



Complete the following short answer question.

9. How are questions used to identify wants and needs?

Lesson 3: Motives for Making Purchases Name ______________________

Deciding to Make a Purchase

Objective: Identify the steps in the process of deciding to make a purchase.

On the lines below, write down the steps you went through when you decided to make a major purchase. You should consider what role, if any, the salesperson played in your decision.

UNIT VI - PREPARING FOR A SALE

Lesson 4: Product, Company, and Industry Knowledge

Competency/Objective: Describe how to obtain product, company, and industry knowledge and use it in a sales presentation.

Study Questions

1. **What product knowledge is needed to make a sales presentation?**
2. **What company and industry knowledge is needed to make a sales presentation?**
3. **Why is it important to be familiar with the products of competitors?**
4. **Why is it necessary to have product and industry knowledge?**
5. **What resources are available to obtain product and industry knowledge?**
6. **How are product, company, and industry knowledge used in a sales presentation?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VI.
2. Activity Sheets
   - a) AS 4.1: Product and Competition Summary Sheet
   - b) AS 4.2: Product and Industry Research

UNIT VI - PREPARING FOR A SALE

Lesson 4: Product, Company, and Industry Knowledge

TEACHING PROCEDURES

A. Review

As discussed in the last lesson, customers are motivated to make purchases for various reasons. The motivation for buying is based on the needs of one person at a given time. Once a salesperson has determined that a customer needs a product, his or her job is to convince the customer to buy that product rather than a competitor's. A salesperson does this by using his or her product, company, and industry knowledge. To make a successful sale, the salesperson must know not only the special features of his or her product but also the features of its competitors' products. This lesson will discuss the importance of product, company, and industry knowledge during the sales process and how to obtain this vital information.

B. Motivation

Point out to the class that they would likely be hesitant to buy a product from a sales representative who had little knowledge about the product or the industry. As customers, we depend on salespeople to be knowledgeable and explain products to us (i.e., how they work, how they can be used, how they are made, etc.)

C. Assignment

Analyze the product used for the school-based business/fund-raising activity to determine what product knowledge is needed by the salesperson.

D. Supervised Study

E. Discussion

1. Ask students if they have ever watched a sales presentation. What information about the product did the salesperson include? Discuss the product knowledge needed to make a sales presentation.

What product knowledge is needed to make a sales presentation?

a) General information
    1) Number and types of models or styles available
    2) Materials in the product and how it is made
    3) Price
    4) Discounts
    5) Size
    6) Color
    7) Packaging
    8) Product improvements
    9) Company history and reliability
    10) Identifying characteristics, such as brand names and logos
b) Application information
    1) Use and capability of the product
    2) Instructions for operation
    3) Performance standards
c) Maintenance information
    1) Care and proper maintenance of the product

  2) Guarantees and warranties and their limitations
  3) Maintenance and repair costs
d) Company support information
  1) Credit options
  2) Ordering procedures
  3) Shipping procedures and reliability of delivery
  4) Training provided on use of new products and systems

2. Ask students to identify the types of company and industry knowledge included in presentations they have witnessed. Discuss the information needed for sales presentations.

What company and industry knowledge is needed to make a sales presentation?

a) Industry knowledge
  1) Market trends in supply of and demand for the product and the components used to manufacture it
  2) Products of competitors
  3) Developments made or technologies being introduced into the industry
b) Company knowledge
  1) A company's history and its standing within the industry
  2) Company policies (e.g., for complaints)
  3) Reliability of a company
  4) Warranties and product guarantees

3. Discuss why salespeople must be familiar with the products of their competitors.

Why is it important to be familiar with the products of competitors?

a) Knowledge of the competition allows the salesperson to focus the presentation on areas in which the product shows a definite advantage over the competition's.
b) The salesperson must be prepared to answer any questions concerning the advantages of buying his or her product instead of another company's.

4. Ask students why they think a salesperson finds it necessary to have knowledge about a product and industry. What does this information enable him or her to do?

Why is it necessary to have product and industry knowledge?

a) Product knowledge
  1) Used to inform, provide advice and make suggestions to, and solve problems for the customer
  2) Used to identify the product features that will provide the most important benefits for each customer
b) Industry knowledge
  1) Allows the salesperson to understand the attitude of customers toward competitors and the industry
  2) Allows salesperson to understand what kind of and how much competition must be overcome
  3) Allows salesperson to understand any market developments

5. Ask students what sources they would use to obtain information about a product or an industry. Discuss these sources and others used by salespeople when preparing sales presentations.

What resources are available to obtain product and industry knowledge?

- a) Product knowledge
    - 1) Salesperson's own company - most common resource; presented to make the product look as good as possible
    - 2) Unbiased sources
        - (a) Research reports from independent companies or universities
        - (b) Consumer reports
        - (c) Customer testimonials
        - (d) Newspaper or magazine articles
        - (e) Salesperson's personal experience with the product
- b) Industry knowledge
    - 1) Salesperson's own company and other sales representatives within it
    - 2) Unbiased sources
        - (a) Research reports from independent sources
        - (b) Market reports
        - (c) Newspaper and magazine articles
        - (d) Discussions of the market with representatives of other companies and with customers

6. Discuss how the salesperson uses product, company, and industry knowledge in a sales presentation. Have students complete AS 4.1 and 4.2.

How are product, company, and industry knowledge used in a sales presentation?

- a) Product knowledge
    - 1) Used to provide information about the product because customers must be familiar with the product before they will decide to buy it
    - 2) Used to explain product features that will appeal to the customer to convince him or her of its benefits
- b) Company knowledge - provides important selling points
- c) Industry knowledge - used to provide the customer with information on events occurring in the industry that will affect the buying decision

F. Other Activities

Have each student pick an agricultural product and complete the "Product Summary Sheet" from the Agricultural Sales state contest for that product.

G. Conclusion

A salesperson's knowledge of his or her product, company, and industry will have a significant influence on his or her success. A salesperson must be well informed and know how to use information during a sales presentation. This information can be obtained from several sources, and the salesperson should use as many of these resources as possible. Information about the product, industry, and company should constantly be reviewed and updated so that the salesperson is prepared to answer any questions a customer may have.

H. Answers to Activity Sheets

Answers will vary.

I. Answers to Evaluation

1. d
2. a

3. b
4. c
5. a
6. b
7. c

8. A salesperson should be familiar with the products of competitors because knowledge of the competition allows the salesperson to focus the presentation on areas in which the product shows a definite advantage over the competition's. Also, the salesperson must be prepared to answer any questions concerning the advantages of buying his or her product.

9. Product information is used in a sales presentation to provide information about the product because customers must be familiar with the product before they will decide to buy it. It is also used to explain that the benefits of a product justify its cost.

10. The three areas of industry knowledge needed for a sales presentation are information on market trends in supply of and demand for the product and the components used to manufacture it, information on the products of competitors, and information on developments made or technologies being introduced into the industry.

UNIT VI - PREPARING FOR A SALE

Lesson 4: Product, Company, and Industry Knowledge

Name____________________

Date____________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following is not a source of product knowledge?

   a. Salesperson's company
   b. University research
   c. Consumer reports
   d. Salesperson's competitors

2. What information about the company is needed for a sales presentation, as listed in the text?

   a. Company policies
   b. Technological advances
   c. Market trends
   d. Consumer reports

3. Which of the following is a category of product knowledge?

   a. Customer support information
   b. Maintenance information
   c. Company information
   d. Product information

4. What is one reason that having industry information is important for a salesperson?

   a. To provide an understanding of performance standards
   b. To use when making suggestions about product features
   c. To understand market developments
   d. To provide unbiased information about a product

5. One source of industry knowledge is:

   a. Market reports.
   b. Consumer reports.
   c. Customer testimonials.
   d. Personal experience.

6. Which of the following is not part of the application information category of product knowledge?

   a. Use of the product
   b. Care for the product
   c. Instructions for operation
   d. Performance standards

7. ____________ ______________ is used to provide the customer with information on events occurring in the market that will affect the buying decision.

a. Company knowledge
b. Product knowledge
c. Industry knowledge
d. Competitor knowledge

Complete the following short answer questions.

8. Why would a salesperson want to be familiar with the products of his or her competitors?

9. How is product information used in a sales presentation?

10. What are the three areas of industry knowledge needed for a sales presentation?

Lesson 4: Product, Company, and Industry Knowledge Name ______________________________

Product and Competition Summary Sheet

Objective: Complete a product and competition summary sheet.

Research a product and a competing product. Using a familiar product is easier when looking for information about the product and its main competitor. Fill out the attached summary sheets. Make sure to fill out each category in order to have complete information. On the product summary sheet, list selected features of the product and related benefits the customer would receive with the purchase of the product. On the competition summary sheet, list any features that the product has in common with its main competitor. Indicate the benefits that are the product's strengths and those that are the competitor's strengths.

PRODUCT SUMMARY SHEET	
FEATURES	BENEFITS

COMPETITION SUMMARY SHEET		
COMMON FEATURES	YOUR STRENGTH	COMPETITOR'S STRENGTH

Lesson 4: Product, Company, and Industry Knowledge Name ____________________

Product and Industry Knowledge Research

Objective: Research a product and an industry to learn information that could be used in a sales presentation.

Activity Length:

Part A:	15-20 minutes
Part B:	30 minutes-1 hour (outside class)
Part C:	30 minutes-1 hour

Procedure:

Part A: Pick a product and an industry, and obtain the teacher's approval to research them.

Part B: Research both product and industry. Begin your research by answering the questions below. Remember that other information may also be important. Prepare to explain and answer questions about them.

Part C: Choose a partner and give a presentation on your product, discussing the product and industry knowledge that you have discovered, then listen to your partner's presentation. Be sure to use the information gathered. During your partner's presentation, be sure to ask questions if you do not feel that you have received the appropriate product and industry information to make a decision about purchasing the product. The presentation should cover the questions listed below.

Questions

1. What are the technical features of the product?

2. What are some of the benefits that a customer will gain from the purchase of this product?

3. Are any special discounts or price breaks available on this product?

4. What is the description of the product?

5. What trends are occurring that will affect the market for the product (i.e., anything that will change the supply and/or the demand)?

UNIT VI - PREPARING FOR A SALE

Lesson 5: Identifying and Approaching Potential Customers

Competency/Objective: Identify potential customers and the best method for approaching them.

Study Questions

1. **What sources and methods are used to identify potential customers?**
2. **What knowledge of a customer is needed to prepare for a sale?**
3. **What factors can influence a customer's perception of a salesperson?**
4. **How does the sales environment affect the approach?**
5. **What is appropriate attire for a salesperson, and how does the his or her appearance affect the sales presentation?**
6. **How should a customer be greeted?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VI.
2. Activity Sheets
    - a) AS 5.1: Resources for Identifying New Prospects
    - b) AS 5.2: Approaching Customers

Lesson 5: Identifying and Approaching Potential Customers

TEACHING PROCEDURES

A. Review

As was discussed in the last lesson, product, company, and industry knowledge is a key to making sales. Salespeople must know where to obtain this knowledge and how and when to use it. Information about the competition is very important because the salesperson must be able to point out what benefits distinguish his or her product from competitors' to convince the customer to make a purchase. The salesperson must also be able to identify potential customers and learn the best method of approaching them to ensure long-term sales for his or her company. This lesson will discuss how to identify good prospects and the different methods used to approach them.

B. Motivation

Explain that a salesperson must know where to obtain information about prospective customers. To be successful in his or her territory, the salesperson needs to constantly work on expanding the volume of sales in the territory; one of the easiest ways to do so is to find new customers. Have the students complete AS 5.1 to familiarize them with the resources available to find prospects.

C. Assignment

Have students practice identifying and approaching customers for the school-based business/fund-raising activity.

D. Supervised Study

E. Discussion

1. Ask students what methods are used to identify potential customers. Discuss these methods.

What methods are used to identify potential customers?

a) Salesperson's company
    1) Sales department
    2) Research department
    3) Group of sales representatives
    4) Other sources within the company
        (a) Credit departments
        (b) Service departments
b) Salesperson's personal experience
    1) Personal observations
        (a) Reading local newspapers
        (b) Joining clubs or groups
        (c) Attending community activities or other events that place him or her in contact with people in the sales territory
    2) Cold canvassing
        (a) Door-to-door sales
        (b) Passing out business cards or flyers
    3) Telephone calls or direct mail (information usually comes from some type of research)
        (a) Telephone - calling prospects and making sales presentations over the phone

        (b) Direct mail - sending out information about sales, discounts, new products, or new features
        (c) Faxes - variation on direct mail, faxing out the information

c) Current customers
   1) Referrals - may make direct referrals to friends, family, or business associates or give subtle clues
      (a) Endless chain - lists made by customers containing the names of people they know who may be interested in the product
      (b) Center of influence - person of high standing in the community who is known to use the product and helps the salesperson obtain prospects
   2) Customer testimonial - statement from a customer expressing satisfaction with a product that can be presented to prospective customers to help make a sale

d) Noncompeting salespeople
e) Public sources (e.g., government agencies)
f) Commercial sources

2. Ask students why a salesperson needs some previous knowledge about a customer before attempting to make a sale. Have students list what information they think would be important.

   What knowledge of a customer is needed to prepare for a sale?

   a) Who the decision maker is and his or her personality type
   b) Financial standing
   c) Need for the product
   d) Potential volume of sales and longevity of the business relationship
   e) Accessibility of the customer

3. Discuss why it is important to influence the customer's perception of the salesperson. Have students list some factors that shaped their impressions (positive and negative) of salespeople they have encountered in the past.

   What factors can influence a customer's perception of a salesperson?

   a) Personal appearance
   b) Salesperson's attitude, expressed through the manner in which he or she speaks, language used, and tone of voice
   c) Nonverbal signals
   d) Salesperson's knowledge of the product, the market, and the company
   e) Appearance of trustworthiness and credibility
   f) Past experiences with the sales representative's company, product, or another salesperson from that company
   g) Bias against the sales representative based on his or her age, gender, or race

4. Review the different sales environments discussed in Unit 3, Lesson 1. Discuss how each environment affects the approach used by the salesperson.

   How does the sales environment affect the approach?

   a) Retail
      1) Emphasize market information about future demand
      2) Take the type of customer into account when determining need
      3) Determine the financial capability of the retailer
      4) Approach the retailer with ideas for promotions or advertisements and make sure the retailer will participate

b) Wholesale
  1) Provide information about the number of retailers who will carry the product to indicate demand
  2) Determine the financial capability of the wholesaler
  3) Inform the wholesaler of any discounts
  4) Provide information about delivery and order procedures
c) Processing
  1) Focus on product efficiency and technical support
  2) Determine need
  3) Determine financial ability to make the purchase
d) Direct sales
  1) Focus on the benefits to customer
  2) Identify needs and features of the product that can meet them
  3) Inform the customer of the support he or she will receive from the company

5. Ask students how the salesperson making direct feed sales to a producer should dress. What about a sales representative making crop chemical sales to a dealer? A person selling machinery to a manufacturer? Discuss how the appearance of the salesperson affects the sales presentation.

What is appropriate attire for a salesperson, and how does his or her appearance affect the sales presentation?

a) The salesperson should dress in the same style but a bit better than the customer. Being underdressed or overdressed gives the impression that the salesperson either is not prepared to sell to customers in their environment or does not have enough knowledge of their environment to know what is appropriate.
b) Clothing and jewelry should not be gaudy, flashy, or trendy. The salesperson does not want them to distract the customer from the presentation.
c) The salesperson should be clean with well-kept hair and nails; and women should wear moderate makeup.

6. Ask students how they prefer to be approached by someone they do not know. Compare the preferences of the students. Discuss the steps that can be used when meeting any customer for the first time.

How should a customer be greeted?

a) Shake hands.
b) Address the customer by name.
c) Make introductions (provide both the salesperson's and company's name).
d) Express appreciation to the customer for taking the time to meet.
e) State the purpose of the meeting.
f) Begin to gain information from the customer by asking probing questions.

F. Other Activities

Have the students pair up and treat each other as potential customers to become comfortable with the process of greeting new people.

G. Conclusion

Identifying prospects who may meet the qualifications to become long-term customers is an involved process. Specific knowledge about the prospect and his or her business is vital; it allows the salesperson to prepare a customized presentation. The key factors of the presentation will vary with the customer and the environment in which the salesperson is working. The salesperson must be aware of the way the customer perceives him or her based on factors such as appearance. The initial meeting sets the stage for the entire business relationship, so the method of greeting the customer is very important.

H. Answers to Activity Sheets

AS 5.1

1. Research department

2. Salespeople may meet and brainstorm about prospective customers.

3. This department has records of the credit accounts of current and past customers who may be excellent prospects.

4. Service department

5. Personal experience

6. Reading local newspapers, joining clubs and groups, and attending community activities or other events that place him or her in contact with people in the sales territory.

7. Cold canvassing

8. They are similar to cold canvassing, except some initial research takes place in most cases. In telephone calls, the sales pitch is given over the phone. In direct mail, information about sales, discounts, new products, or new features is mailed to prospects to gain their interest.

9. Customers may make direct referrals or give subtle clues about good prospects. In an endless chain, the sales representative asks a current customer for a list of the names of people who would be interested in a sales presentation. Centers of influence have many contacts who could be prospective customers. Centers of influence may also cause other people to consider making a purchase because they look up to them.

10. Customer testimonials

11. Public sources

12. Some companies research and develop a list of prospects based on certain specified factors. They provide this information for a fee.

I. Answers to Evaluation

1. d
2. c
3. b
4. c
5. a
6. d
7. a

8. An endless chain is lists made by customers containing the names of people they know who may be interested in the product.

9. Answers may include any three of the following:

   - Who the decision maker is and his or her personality type
   - Financial standing
   - Need for the product
   - Potential volume of sales and longevity of business relationship
   - Accessibility of the customer

10. The salesperson should dress in the same style but a bit better than the customer. Clothing and jewelry should not be gaudy, flashy, or trendy. The salesperson should be clean, with well-kept hair and nails, and women should wear moderate makeup.

Name ______________________________

Lesson 5: Identifying and Approaching Potential Customers

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. In a presentation in a direct sales environment, the salesperson should focus on:

   a. Market information about future demand.
   b. Customer testimonials about the product.
   c. Cold canvassing to discover other customers.
   d. Benefits of the product for the customer.

2. What customer information is necessary to prepare for a sale?

   a. Appearance
   b. Trustworthiness
   c. Accessibility
   d. Referrals

3. When preparing for a sales presentation, the salesperson should:

   a. Wear his or her best suit.
   b. Wear the same style of clothing as the customer.
   c. Wear his or her trendiest clothing.
   d. Wear dirty clothing if the customer does.

4. Which of the following is not a method for finding potential customers?

   a. Personal experience
   b. Present customers
   c. Competing salespeople
   d. Commercial sources

5. What is the first step a salesperson should take in greeting a customer?

   a. Shaking hands
   b. Expressing appreciation for the meeting
   c. Introducing himself or herself
   d. Addressing the customer by name

6. Which of the following does not affect the customer's perception of a salesperson?

   a. Salesperson's expressed knowledge level
   b. Nonverbal signals
   c. Salesperson's appearance
   d. Financial standing

7. What is one item that should be included in a presentation in a retail sales environment?

   a. Market information about future demand
   b. Customer testimonials about the product
   c. Cold canvassing for other business
   d. Direct benefits of the product for the customer

Complete the following short answer questions.

8. What is an endless chain?

9. What are three items of customer knowledge necessary to prepare for a sale?

   a.

   b.

   c.

10. How should a salesperson dress for a sales presentation?

Lesson 5: Identifying and Approaching Potential Customers Name ______________________________

Resources for Identifying New Prospects

Objective: To help students become familiar with the resources that are available to a salesperson for finding new prospects.

Fill in the blanks in the table below.

RESOURCE	HOW INFORMATION IS PROVIDED
Salesperson's Company	Sales department - This department provides a list of current customers who may be good prospects for the sale of a new product. [1] - This department compiles lists of prospective customers based on research. Group of sales representatives - [2] Credit department - [3] [4] - This department has a list of customers and a record of repairs. If the customer has an older product that requires many repairs, he or she may be ready to make a new purchase.
[5]	Personal observation - An awareness of changes within a territory is achieved by doing the following: [6] [7] - Cold sales calls are made in an area without prior research. Telephone calls and direct mail - [8]

Current customers	Customer referrals - [9] [10] - These statements are made by customers expressing their satisfaction with a product. They can be presented to prospects to help make a sale.
Non-competing salespeople	Salespeople within or outside company may provide information about people in the territory that have an interest in the product.
[11]	Government agencies can provide lists of people that may be prospects for some products. The information is free or has a minimal cost but is vague.
Commercial sources	[12]

Lesson 5: Identifying and Approaching Potential Customers Name ______________________________

Approaching Customers

Objective: Gain experience in dealing with different customer types.

Activity Length:

Part A: 5-10 minutes
Part B: 5-10 minutes
Part C: 10-20 minutes per student

Procedure:

Part A: Work with a partner. One of you should be the salesperson and the other the customer. The customer should act as if he or she is either an automatic customer, a customer who requires additional information to make a purchase, or a customer who is almost impossible to sell to (your instructor will indicate which one). The salesperson should approach the customer and try to determine what type of customer he or she is and adjust the sales presentation accordingly.

Part B: Switch roles and repeat the activity.

Part C: In a group discussion with the rest of the class, describe how you attempted to handle the customer. Discuss what worked and what did not with the rest of the class.

UNIT VII - MAKING A SALE

Lesson 1: Building Rapport with Customers

Competency/Objective: Demonstrate techniques for building rapport with customers.

Study Questions

1. **Why is it important to develop a good relationship with a customer?**
2. **What factors are involved in developing rapport with a customer?**
3. **Why is it important to establish credibility with a customer?**
4. **Why is it important for the salesperson to identify his or her reasons for doing business with a customer?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VII.
2. Activity Sheet
   a) AS 1.1: Developing Rapport

UNIT VII - MAKING A SALE

Lesson 1: Building Rapport with Customers

TEACHING PROCEDURES

A. Introduction

This unit will discuss the heart of the sales process--the steps involved in making a sale. The first step is establishing good rapport with the customer. Building rapport is essential to forming a successful long-term sales relationship.

B. Motivation

Without making any introductory comments, read the following passage adapted from Lesson 4 of this unit: "Customers in the first category are not good long-term customers. Another department of the company should take over when dealing with this type of customer." Ask the students to explain the passage. (It is discussing customers who do not want to pay or who are waiting as long as possible to pay; the credit department should handle them.) This exercise will illustrate how important it is to prepare a customer for the information that he or she will receive during a presentation by stating the purpose of the meeting at the outset, which is part of developing common goals for the meeting and their relationship.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students what the benefits would be of developing a good relationship with a customer. Discuss why building a relationship is important.

   Why is it important to develop a good relationship with a customer?

   a) To gain customer loyalty
   b) To obtain referrals and customer testimonials more easily
   c) To increase the potential for long-term purchases

2. Discuss how a salesperson can go about building rapport with a customer. Have students complete AS 1.1.

   What factors are involved in developing rapport with a customer?

   a) Honesty - The salesperson must never deceive the customer, either by lying or by failing to reveal negative information about the product, company, or salesperson.
   b) Trust
      1) The salesperson must be professional and businesslike.
      2) The salesperson should be friendly and polite, which shows eagerness to work with and respect for the customer.
      3) The salesperson should invite the customer to call for help at any time.
      4) The salesperson needs to confirm his or her competence and knowledge about the product and its use.
      5) The salesperson should explain the steps in discovering and meeting the customer's needs.

c) Comfort - Establishing trust builds a certain comfort level. Being comfortable means that both the customer and salesperson feel that discussing almost anything about the product and company is acceptable.

d) Support
    1) The salesperson should be available to answer any questions or give advice.
    2) The sales representative is the link between the customer and the company for technical support.
    3) If requested by the customer, the salesperson may provide support by advising the customer on specific business matters, such as financial planning.

e) Common goal
    1) The salesperson and the customer should agree on the purpose of each meeting. (The salesperson may announce the purpose and then seek confirmation from the customer.)
    2) The customer and salesperson should develop expectations for a long-term business relationship.

3. Ask students why a salesperson must be credible to the customer.

Why is it important to establish credibility with a customer?

A customer must be able to believe in the salesperson if they are to build a long-term business relationship. The customer must feel that the salesperson is a good source of information and can be counted on to take care of any concerns or problems that may arise during the business relationship.

4. Discuss why the salesperson should inform the customer of his or her reasons for doing business.

Why is it important for the salesperson to identify his or her reasons for doing business with a customer?

a) Identifying reasons for doing business is necessary to ensure that the customer and salesperson have the same expectations.
b) The customer can decide whether he or she wants to proceed with the business relationship.
c) If the customer is not comfortable with some part of the purpose, he or she can bring up areas of concern or possible changes; the conversation can reveal important information about the customer and his or her business and priorities.

F. Other Activities

Have students select someone that they have a rapport with and write a description of how their relationship was established. They should then examine how this description relates to the factors discussed in the student reference.

G. Conclusion

The salesperson must begin to work immediately to establish rapport with the customer to build a sound long-term business relationship. The salesperson should work on developing an atmosphere of honesty, trust, comfort, and support and a common goal to build rapport. The credibility of both the salesperson and the company are also an important part of building rapport. The salesperson must remember to gain agreement from the customer on the reasons and purpose of the sales meeting.

H. Answers to Activity Sheet

AS 1.1

1. Answers may vary, but some suggested answers are given below.

Problems:

- Marcus has not turned in the assignment.
- Ms. Galati is skeptical of Marcus's honesty.
- Marcus has used the same explanation before.
- Ms. Galati does not know Marcus well.

Solutions:

- Ms. Galati could talk to other teachers who know Marcus better to verify the story.
- Ms. Galati could be more trusting of the Marcus and offer to try to help him.
- Marcus could make sure to turn in future assignments on time.
- Marcus could offer to bring in proof of his work schedule.
- Ms. Galati and Marcus could sit down and discuss the situation.

I. Answers to Evaluation

1. a
2. a
3. d
4. b

5. Honesty, trust, comfort, support, and a common goal

6. A customer must be able to believe in the salesperson for them to build a long-term business relationship.

UNIT VII - MAKING A SALE

Lesson 1: Building Rapport with Customers

Name______________________________

Date______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Why should the salesperson inform the customer about his or her reasons for doing business?

   a. To ensure that they have the same expectations for the relationship
   b. To ask for a referral or customer testimonial for prospective customers
   c. To set up a contract to ensure that long-term purchases are made
   d. To provide technical support for the customer if problems arise

2. Why should the salesperson establish a high comfort level in a relationship?

   a. It will allow them to discuss almost anything about the product or company.
   b. It will help the salesperson identify his or her reasons for doing business.
   c. It will allow the salesperson to ensure that the customer is always loyal.
   d. It will teach the customer to believe in the salesperson's honesty.

3. Which of the following is not a reason a salesperson should develop a relationship with a customer?

   a. To win customer loyalty so he or she does not switch to another product
   b. To build the potential for long-term purchases from the customer
   c. To obtain referrals and customer testimonials more easily
   d. To make sure that the salesperson does not deceive the customer

4. To demonstrate honesty, the salesperson should:

   a. Establish a high comfort level with the customer.
   b. Never deceive the customer about anything.
   c. Provide support with specific business matters.
   d. Never worry about establishing credibility.

Complete the following short answer questions.

5. What are the five factors involved in developing rapport with a customer?

   a.

   b.

   c.

   d.

   e.

6. Why should the salesperson establish his or her credibility with the customer?

Lesson 1: Building Rapport with Customers Name____________________

Developing Rapport

Objective: Determine how to develop rapport.

Read the scenario outlined below. Write down the problems with the relationship. Describe what both people could do to improve their rapport.

Ms. Galati was upset with one of her students, Marcus, who had once again not turned in an assignment. Marcus said that he had been working late and had not completed the assignment. He has given the same explanation before, and Ms. Galati is skeptical. She does not know him well.

UNIT VII - MAKING A SALE

Lesson 2: Identifying Customer Needs

Competency/Objective: Identify customer needs.

Study Questions

1. **Why is it important to identify customer needs during a sales presentation?**
2. **What are the three types of sales personalities, and how does the salesperson uncover the customer's sales personality?**
3. **What is the difference between open-ended and close-ended questions?**
4. **How are open-ended and close-ended questions used in the sales process?**
5. **What types of questions can be asked to determine a customer's needs?**
6. **How is reflective questioning used to check listening skills?**
7. **How are summarizing techniques used to obtain agreement on customer needs?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VII.
2. Activity Sheet
    a) AS 2.1: Open-Ended and Close-Ended Questions

Lesson 2: Identifying Customer Needs

TEACHING PROCEDURES

A. Review

An important factor in establishing a stable long-term business relationship is building rapport with the customer. A salesperson must understand that rapport is based on honesty, trust, comfort, support, and a common goal. The salesperson must also establish his or her credibility and inform the customer of his or her intentions before proceeding with any meeting. This lesson will discuss the next step in the sales process, which is identifying customer needs. Salespeople must find out whether the customer needs the product and which of its benefits will encourage him or her to buy it.

B. Motivation

Before class begins, develop several statements (at least five) about any subject. After making the first statement to the class, ask a student to restate what has been said in his or her own words. Tell the student whether he or she has correctly interpreted the message. Repeat this process with each statement, calling on a different student each time. After completing this activity, discuss listening and reflective questioning and their importance in determining customer needs.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students if they have ever bought something expensive that they did not need. Discuss why discovering customer needs when making a sales presentation is important to a salesperson.

   Why is it important to identify customer needs during a sales presentation?

   a) Since needs motivate the customer's buying decision, the salesperson must know what the customer's true needs are to be able to make a sale.
   b) Identifying the customer's needs will also reveal valuable information about the customer and his or her personality and business.
   c) Identifying customer needs consists of two steps.
      1) Discovering a need
         (a) Ask probing questions and listen carefully to the responses.
         (b) Observe and research the customer's business.
      2) Making the customer aware of his or her needs
         (a) Question the customer about his or her needs to obtain agreement on the nature of the needs.
         (b) Inform the customer of the research conducted or about ways to meet seemingly unfulfillable needs.

2. Discuss the different types of sales personalities. Ask students whether they think they are extroverts or introverts.

What are the three types of sales personalities, and how does the salesperson uncover the customer's sales personality?

a) Extrovert
  1) Outgoing, friendly, and talkative
  2) People-oriented and less opinionated
  3) Easier initial sale because of open-mindedness
  4) Approach
    (a) Approach him or her with a friendly and open manner to establish a personal relationship.
    (b) Praise his or her accomplishments.
    (c) Supply an abundance of assistance and technical support.

b) Introvert
  1) Subdued, private, and less emotional
  2) Task-oriented
  3) Extremely analytical when making decisions
  4) Likes to have extensive information on which to base a decision
  5) Harder to sell to initially, but very loyal
  6) Approach
    (a) Approach an introvert with a detailed, specific, and fact-filled presentation.
    (b) Do not rush introverts; they like to digest all the facts before making a decision.

c) Ambivert
  1) Combination of the first two categories
  2) Includes most people
  3) Approach - Observe the ambivert's behavior and mold the presentation to fit it.

3. Ask students two questions--one that is open-ended and one that is close-ended (i.e., "What are you going to do this weekend?", "Are you going to ______________ this weekend?"). Discuss the differences in the way students respond to the two questions.

What is the difference between open-ended and close-ended questions?

a) Open-ended questions - Questions that require extensive answers

b) Close-ended questions - Questions that provide specific information through very short answers (i.e., yes/no questions)

4. Discuss when a salesperson should use open-ended questions and when to use close-ended questions. Have students complete AS 2.1.

How are open-ended and close-ended questions used in the sales process?

a) Open-ended questions
  1) Used to help the salesperson understand the customer and his or her point of view
  2) Allow the customer to take some control over the conversation, which generates feelings of friendliness and trust for the salesperson

b) Close-ended questions
  1) Used to learn specific information
  2) Give the salesperson almost total control over the conversation
  3) Should not be overused, since the customer may feel as if he or she is being interrogated and become defensive

5. Conduct a class discussion about the different types of questions that can be asked during a sales presentation.

What types of questions can be asked to determine a customer's needs?

a) Questions to focus attention
   1) Used at the beginning of the meeting to focus the conversation on the subject
   2) Used in the middle of a presentation if the conversation has strayed from the subject
   3) Allow the salesperson to gain control of the presentation
   4) Usually consist of close-ended questions
b) Questions to gain information
   1) Can be used at any time
   2) Allow the salesperson to identify needs and obtain information about the customer's business
   3) Can be either close- or open-ended, but tend to be close-ended
c) Questions to confirm information
   1) Confirm information the salesperson has already gathered
   2) Let the customer know that the salesperson is interested in the customer's business
   3) Can indicate that the salesperson is paying attention to the customer's comments
d) Questions to give information
   1) Inform the customer about the salesperson, his or her company, and the product
   2) Draw the customer into the conversation
e) Questions to qualify a customer
   1) Help the salesperson to decide if the prospect is potentially a good customer
   2) Provide the salesperson with information about the customer's buying ability and interest in the product
f) Thought-provoking questions
   1) Get the customer involved in the presentation and thinking about the product
   2) Usually are open-ended so that the customer has to think about the product and verbalize these thoughts, which may help him or her see the benefits of doing business
g) Defining questions
   1) Used to confirm a statement that the customer has made
   2) Usually restate the customer's comment in different words to gain confirmation from the customer that the salesperson's understanding is correct
h) Closing questions - Used in an attempt to close the sale or get a decision from the customer

6. Discuss how salespeople use reflective questioning to evaluate their listening skills.

How is reflective questioning used to check listening skills?

a) After the customer makes a statement, the sales representative should rephrase it in his or her own words and get confirmation from the customer that he or she is correct.
b) If correct, the salesperson knows that he or she has done well in listening to the customer.
c) If the salesperson has difficulty recognizing the customer's meaning, however, he or she knows that practice in listening is required.

7. Emphasize that obtaining the customer's agreement that a need exists is vital to making a sale. Discuss how summarizing techniques are used for this purpose.

How are summarizing techniques used to obtain agreement on customer needs?

a) The salesperson must put together a list of needs and get confirmation from the customer that they agree on the needs by summarizing the list for the customer.
b) If the list is short, the salesperson should discuss the specific features of the product at the end of the summary and ask the customer for agreement.
c) If the list of needs is long, the salesperson should match the features and needs one at a time while going through the list and then ask the customer for agreement.

F. Other Activities

Divide the class into groups of four or five students. Tell only one student in each group the following information: he or she is a producer who has had trouble controlling cockleburs in his soybeans. Have the rest of the group write down questions that could be used to discover this information. Half of the student groups should write down a list of open-ended questions, and the others should make a list of close-ended questions. The members of the group should take turns asking the person who knows the information these questions. The groups should time how long it takes them to define the problem. When completed, the entire class should talk about the questions used and how effective they were in eliciting different types of information.

G. Conclusion

Identifying customer needs is a necessary part of the sales process. The salesperson must be able to match the customer's needs with specific product features and benefits to convince the customer to make a purchase. Different sales personalities must be approached in different ways to gather this information. Determining needs can be accomplished by questioning the customer using different types of questions, which may be either open-ended or close-ended. The salesperson must listen carefully to the responses of the customer. Once needs have been determined, the salesperson should summarize the needs and obtain the customer's agreement that they are valid.

H. Answers to Evaluation

1. d
2. c
3. a
4. d
5. b
6. c
7. a
8. Since needs motivate the customer's buying decision, the salesperson must know what the customer's true needs are to be able to make a sale. Identifying the customer's needs will also reveal valuable information about the customer and his or her personality and business.
9. The salesperson must put together a list of needs and obtain confirmation from the customer that they agree on the needs by summarizing the list for the customer. If the list is short, the salesperson should discuss the specific features of the product at the end of the summary and ask the customer for agreement. If the list of needs is long, the salesperson should match the features and needs one at a time while going through the list and then ask the customer for agreement.
10. After the customer makes a statement, the sales representative should rephrase it in his or her own words and get confirmation from the customer that he or she is correct. If correct, the salesperson knows that he or she has done well in listening to the customer. If the salesperson has difficulty recognizing the customer's meaning, however, then he or she knows that practice in listening is required.

UNIT VII - MAKING A SALE

Lesson 2: Identifying Customer Needs

Name______________________________

Date______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What type of question is used in the middle of a presentation if the conversation has strayed from the subject?

   a. Thought-provoking questions
   b. Informative questions
   c. Questions to trigger conversation
   d. Questions to focus attention

2. Which of the following is not a sales personality listed in this lesson?

   a. Extrovert
   b. Ambivert
   c. Omnivert
   d. Introvert

3. Open-ended questions:

   a. Require more extensive answers.
   b. Can be answered with "yes" or "no."
   c. Are usually used to focus attention.
   d. Require very brief answers

4. Questions that help a salesperson decide if a prospect is potentially a good customer are referred to as:

   a. Questions to gain information.
   b. Defining questions.
   c. Closing questions.
   d. Questions to qualify a customer.

5. ______________________ should not be overused, since the customer may feel as if he or she is being interrogated.

   a. Open-ended questions
   b. Close-ended questions
   c. Defining questions
   d. Closing questions

6. Which of the following describes an introvert?

   a. People-oriented
   b. Easy to sell to initially
   c. Very loyal customer
   d. Talkative

7. Thought-provoking questions:

   a. Usually are open-ended to encourage the customer to think about a product.
   b. Usually are close-ended to give the salesperson control over the conversation.
   c. Usually restate something the customer has said to encourage conversation.
   d. Usually used at the beginning of a meeting to focus the customer's attention.

Complete the following short answer questions.

8. What are two reasons that identifying customer needs during a sales presentation is important?

9. How are summarizing techniques used by a salesperson to obtain agreement on customer needs?

10. How does a salesperson use reflective questioning to check his or her listening skills?

Lesson 2: Identifying Customer Needs

Name______________________________

Open-Ended and Close-Ended Questions

Objective: Practice composing open-ended and close-ended questions to elicit information from customers.

Write down five examples of close-ended questions that might be used in a sales presentation and explain what information could be learned from the answer to each of these questions.

CLOSE-ENDED QUESTIONS	INFORMATION

Write down five examples of open-ended questions for sales presentations and explain what information could be learned from the answer to each of these questions.

OPEN-ENDED QUESTIONS	INFORMATION

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Lesson 3: Effective Sales Presentations

Objective/Competency: Recognize the steps and tools involved in constructing an effective sales presentation.

Study Questions

1. **How does a salesperson decide when to make a sales presentation?**
2. **What are the key components of an effective presentation?**
3. **What is the importance of each key component?**
4. **What resources are available to aid in constructing a presentation?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VII.
2. Transparency Master
    a) TM 3.1: Components of an Effective Presentation

UNIT VII - MAKING A SALE

Lesson 3: Effective Sales Presentations

TEACHING PROCEDURES

A. Review

Customer needs must be identified before the sales process can begin. The salesperson must know how to distinguish between different sales personalities to decide how to probe for information from each customer. Different types of questions may be used to learn this information. Reflective listening skills are also important in probing for information because the salesperson has to check to see if he or she is listening effectively. After the initial research and contact, the salesperson actually presents the product or service to the customer, which is the heart of the sale. It is essential that a salesperson know what to include in a presentation and how to present information to each customer or prospect. This lesson will describe the components of a presentation and the different resources that can aid in preparing a presentation.

B. Motivation

1. Before beginning the discussion section of this lesson, have the students write down the items that they think are the important components of an effective presentation. After discussing their lists, use TM 3.1 to compare the student's lists with the actual elements of a presentation.

2. Explain to the class that no matter how well-composed a presentation is, the salesperson is not likely to make a sale if he or she is not comfortable with the material and the presentation itself. Planning, organizing, and practicing the presentation are all important in making a sale. Give a student an already prepared script for a short sales presentation for an unfamiliar product. After allowing the student to study it for a few minutes, have him or her make the presentation. Ask the other students to critique the student's performance when he or she is finished.

C. Assignment

Have students begin to prepare a presentation for the product used in the school-based business/fund-raising activity.

D. Supervised Study

E. Discussion

1. Ask the students what signals the salesperson to begin the sales presentation.

How does a salesperson decide when to make a sales presentation?

Establishing a rapport with the customer and discovering and confirming his or her needs should provide the salesperson with feedback that allows him or her to determine whether the customer is receptive to the salesperson and product. If the feedback is generally positive, the sales representative may begin the sales presentation.

2. Ask the students to name the key components of an effective presentation.

What are the key components of an effective presentation?

a) Pre-presentation planning
b) Opening

c) Body
d) Summary
e) Close

3. Have students explain the importance of each component of an effective presentation. Discuss each component.

What is the importance of each key component?

a) Pre-presentation planning - planning that prepares the salesperson to present the product to a specific customer or prospect
    1) Develop an opening that will attract the customer.
    2) Identify features of the product or service that the customer might appreciate and the benefits of the features for the customer.
    3) Organize a list of possible objections and the most appropriate response to each objection.
    4) Practice the presentation in front of others.
b) Opening - component that sets the stage for the entire presentation by attracting the customer's attention and mentally preparing him or her for the content so he or she finds it easier to absorb key points
    1) Appeal to a combination of the customer's senses.
    2) Outline, or summarize, the content of the presentation.
c) Body - main part of the sales presentation, describing the product's key features and the benefits the customer will experience with its use
    1) Discuss each of the features and benefits thoroughly in a logical order.
    2) Be alert for feedback from the customer to determine what impression he or she has of the product.
d) Summary - component that allows the salesperson to make sure the selling points of the product are fresh in the customer's mind before attempting to make the sale
    1) Summarize the key elements of the presentation.
    2) Obtain feedback from the customer or prospect to ensure that he or she has remembered and understood the important points.
e) Close - actual confirmation of the sale

4. Ask students what types of resources may be used in putting together a sales presentation. Discuss each type of resource.

What resources are available to aid in constructing a presentation?

a) Customer/prospect profile - Contains information about a customer/prospect and his or her company (identification of decision makers, personality type, financial power, problem areas, etc.) that can help in personalizing a presentation
b) Product and company data - Enables the salesperson to reply to questions
c) List of standard objections and responses - Prepares the salesperson for objections before they arise
d) List of product features and related benefits - Lists product features and the benefits related to each of them from which the salesperson can pick the features and benefits that will be most appealing to a customer
e) List of approaches or sales strategies - Lists approaches to be used with different personality types
f) List of closes - Helps the salesperson memorize the techniques for confirming a sale
g) List of attention getters - Includes such items as stories, anecdotes, and special offers that are designed to attract and hold the interest of the customer
h) Visual aids and demonstration materials - Includes materials such as charts, graphs, models, and displays that stress the positive points of the product

F. Other Activities

Allow students to practice using the three approaches for an opening for a sales presentation. Have the students pair up and begin the same presentation with each of the different approaches. They should evaluate which approach worked the best.

G. Conclusion

A sales presentation must be well prepared and properly organized to be effective in making the sale. The salesperson must be confident that his or her sales presentation is the very best that it can be. Proper structure, content, information, and demonstration materials must be included for an effective presentation.

H. Answers to Activity Sheets

AS 3.1

Answers will vary.

I. Answers to Evaluation

1. b
2. d
3. a
4. d
5. Establishing a rapport with the customer and discovering and confirming his or her needs should provide the salesperson with feedback that allows the salesperson to determine whether the customer is ready for the sales presentation. If the feedback is generally positive, the sales representative may begin the sales presentation.
6. The body is the main part of the sales presentation, describing the product's key features and the benefits the customer will experience with its use. The salesperson should discuss each of the features and benefits thoroughly in a logical order and be alert for feedback from the customer to determine what impression he or she has of the product.
7. Visual aids are used during the presentation to emphasize the positive points of the product. Examples of visual aids include charts, graphs, models, and displays.

Name______________________________

Lesson 3: Effective Sales Presentations

Date______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following is not a key component of an effective presentation?

   a) Pre-presentation planning
   b) Customer/product profile
   c) Summary
   d) Close

2. The opening is important because:

   a) It prepares the salesperson to present the product to the customer.
   b) It confirms the sale.
   c) It is the main part of the sales presentation.
   d) It sets the stage for the rest of the presentation.

3. Which of the following takes place during the summary?

   a) Repetition of key elements of the presentation
   b) Detailed discussion of each of the features and benefits of the product
   c) Outlining the content of the presentation to prepare a customer to receive information
   d) Development of the opening

4. Which of the following is not a resource that could be used in constructing a presentation?

   a) List of standard objections and responses
   b) List of approaches or sales strategies
   c) List of product features and related benefits
   d) List of possible presentation summaries

Complete the following short answer questions.

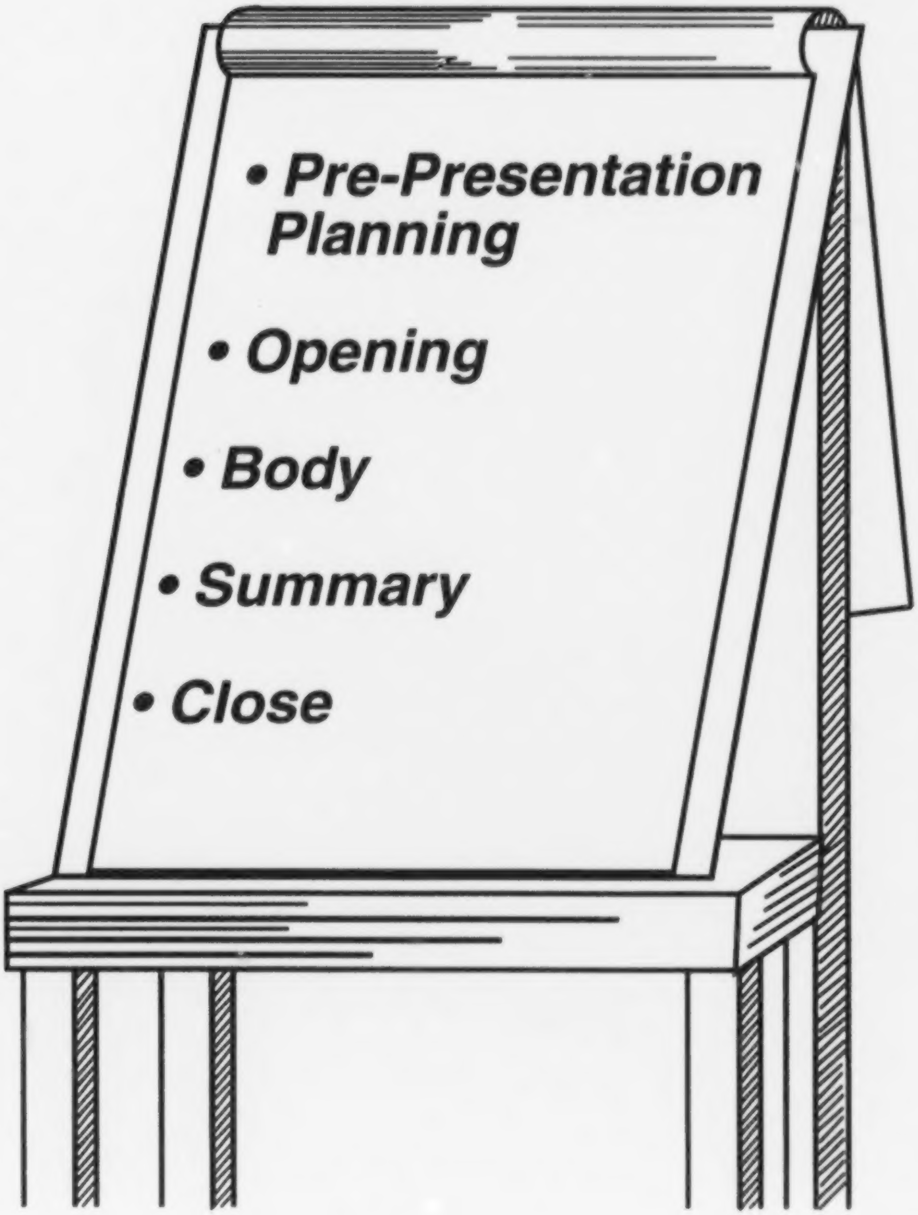
5. How does the salesperson decide when to make a sales presentation?

6. What is the body of the presentation? What are two things the salesperson should do while delivering the body?

7. What is the purpose of visual aids? List two examples of visual aids.

TM 3.1

Components of an Effective Presentation



- ***Pre-Presentation Planning***
- ***Opening***
- ***Body***
- ***Summary***
- ***Close***

UNIT VII - MAKING A SALE

Lesson 4: Closing a Sale

Competency/Objective: Demonstrate techniques for closing a sale.

Study Questions

1. **How should opposition be handled?**
2. **How does a salesperson know when to close a sale?**
3. **What are six ways to close a sale?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VII.
2. Transparency Master
   a) TM 4.1: Dos and Don'ts of Closing a Sale
3. Activity Sheets
   a) AS 4.1: Identifying and Handling Objections
   b) AS 4.2: Preparing a Sales Presentation
   c) AS 4.3: Making a Sales Presentation

UNIT VII - MAKING A SALE

Lesson 4: Closing a Sale

TEACHING PROCEDURES

A. Review

As discussed in Lesson 3, the salesperson conveys information about a product or service to the customer through the sales presentation. If the salesperson makes an effective presentation, the customer will be more likely to purchase the product. However, overcoming opposition may be necessary before making the sale. This lesson will discuss how to address objections and then close the sale.

B. Motivation

Ask students to think about how much time it would take to prepare a good sales presentation. Have them imagine completing the whole process and then not making a sale because the close was handled improperly.

C. Assignment

Have students complete the sales presentation for the school-based business/fund-raising activity.

D. Supervised Study

E. Discussion

1. Ask students how a salesperson might respond to opposition from the customer. Give the class some examples of objections and act out proper responses. Have students complete AS 3.1 to review identifying and handling different types of objections.

   How should opposition be handled?

   a) Objections should be viewed positively.
      1) They indicate that the customer has an interest in the product.
      2) They give the salesperson insight into the customer's thought processes, which allows him or her to determine whether the customer comprehends the important points of the presentation.
      3) Openness to objections can aid customer relations.
   b) Dealing with objections immediately benefits the salesperson because the customer is then more knowledgeable about the product. If the sales representative is not going to handle the objection at once, then he or she must acknowledge the objection and explain why it will be discussed later, verifying that the customer does not have a problem with the delay.
   c) Valid objections are statements that are true or true based on the customer's knowledge.
      1) Address the objection immediately.
      2) Restate the objection and look for agreement from the customer.
      3) Discuss the objection, downplaying its importance by stressing the positive features of the product.
      4) Ask the customer if the positive features and benefits outweigh the objection in importance while reviewing the benefits of the product.
   d) Hidden objections, or smokescreens, are objections made by the customer to disguise true objections.
      1) Ask the customer direct, specific questions to learn the true objection. An indirect question can be used if the salesperson feels that the customer is willing to talk openly.

        2) When the true objection is identified and confirmed, take the same steps as with a valid objection.
    e) Misunderstandings are different from objections, because the customer objects based on misinformation or his or her misinterpretation of information.
        1) Restate the misunderstanding.
        2) Refute the misunderstanding by providing proof of the facts.
        3) Gain agreement from the customer that he or she has misunderstood.
        4) Reemphasize the product features and benefits and obtain verification that the customer understands them.

2. Ask the class how the salesperson knows when to attempt to close a sale.

How does a salesperson know when to close a sale?

- a) The salesperson should be ready to close the sale from the beginning of the meeting because closing can happen at any time.
- b) He or she should consider the type of feedback received from the customer.
    - 1) Extensive and positive feedback - The salesperson can attempt to close the sale.
    - 2) Limited or negative feedback - The salesperson needs to consider his or her information about the customer and business and review the presentation to see if any important selling points have been omitted. This material should be covered before attempting a close.

3. Have students list the different ways to close a sale. Act out the six closes for the students. Show the class TM 4.1. Have students complete AS 4.2 and 4.3. Arrange to film the presentations done for AS 4.3.

What are six ways to close a sale?

- a) Direct close
    - 1) The salesperson asks the customer to commit to the purchase.
    - 2) The salesperson should be confident that all objections have been covered and the customer is ready to buy, or the customer may feel forced into making a decision and be offended.
- b) Assumptive close
    - 1) The salesperson assumes that the customer is committed to buying the product based on feedback and begins working out the details of the purchase.
    - 2) If the salesperson is incorrect, the customer will inform him or her, and the salesperson must discover what objections the customer still has and address them.
- c) Summary close
    - 1) The salesperson summarizes the points of the presentation and emphasizes the features and benefits of the product on which both parties have agreed.
    - 2) As each point is raised, the salesperson should obtain agreement from the customer.
    - 3) If they agree on all key points and no new objections are raised, the sales representative asks the customer for the order, usually with a direct question.
- d) Choice close
    - 1) The salesperson gives the customer a choice between one buying option and another, but not the option of not purchasing the product.
    - 2) This close is used if the sales representative is confident that the customer will buy something and just needs to decide what to purchase.
- e) Conditional close
    - 1) This close is used if the customer is expressing some hesitation.
    - 2) The salesperson presents a condition for purchasing the product.
    - 3) The sales representative should only ask for a commitment if he or she can deliver what is promised to the customer.

f) Loss-in-waiting close
  1) The sales representative may inform the customer of the positive aspects of buying immediately, such as avoiding future price increases.
  2) The salesperson also uses this close when telling the customer that a product may not be available later.
  3) The salesperson must always be truthful when using this close.

F. Other Activities

Pair up students and have them practice different types of closes so that they can become more familiar with them.

G. Conclusion

When making a presentation, the salesperson will usually encounter some type of opposition from the customer, so he or she must understand how to recognize objections and how to handle them positively and effectively. When all of the steps of the presentation have been completed and the opposition has been countered, the salesperson needs to determine the correct moment and way to close the sale. Several different methods may be used to close a sale, and the salesperson must determine which close is best for each customer and selling situation.

H. Answers to Activity Sheets

AS 4.1

TYPE OF OBJECTION	DESCRIPTION	RESPONSE
Misunderstanding	**Not a true objection; the customer's opposition is based on his or her misunderstanding of the salesperson or on misinformation**	Refute with proof of the facts
Hidden objection/ smokescreen	Used to obscure the true objection	**Discover the true objection using direct questions and then handle like a valid objection**
Valid objection	**Statements made by the customer that are true or true based on the customer's knowledge**	**Immediately address this type of objection; restate it and confirm it with the customer, then downplay its importance by stressing positive features and benefits, and finally get agreement from the customer that they outweigh the objection**

I. Answers to Evaluation

1. a
2. d
3. b
4. d
5. c
6. b
7. a
8. d

9. Address a valid objection immediately. Restate it and look for agreement from the customer. Discuss the objection, downplaying its importance by stressing the positive features of the product. Ask the customer if the positive features and benefits outweigh the objection in importance, while reviewing the benefits of the product.

10. The salesperson should be ready to close the sale from the beginning of the meeting because closing can happen at any time. He or she should consider the feedback received from the customer. If it is extensive and mostly positive, the sales representative can attempt to close the sale. If it is limited or mostly negative, the salesperson needs to consider his or her information about the customer and business and review the presentation to see if any important selling points have been omitted. This material should be covered before attempting a close.

UNIT VII - MAKING A SALE Name________________________

Lesson 4: Closing a Sale Date________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. "Would you like me to fill out an order form?" is an example of a(n) ______________ close.

   a. Direct
   b. Choice
   c. Assumptive
   d. Conditional

2. In a(n) __________________ close, the salesperson thinks that the customer is ready to make a purchase based on feedback.

   a. Choice
   b. Conditional
   c. Summary
   d. Assumptive

3. Which of the following is not a type of opposition described in the lesson?

   a. Hidden objections
   b. Invalid objections
   c. Valid objections
   d. Misunderstandings

4. In a(n) ________________________, the customer objects based on his or her misinterpretation of information.

   a. Hidden objection
   b. Invalid objection
   c. Valid objection
   d. Misunderstanding

5. The salesperson goes through the points of the presentation and gets consensus on each point in a(n) _______________________ close.

   a. Assumptive
   b. Direct
   c. Summary
   d. Choice

6. In a(n) ___________________ close, the salesperson asks the customer to decide between two options for buying.

   a. Direct
   b. Choice
   c. Summary
   d. Assumptive

7. ____________________ are objections made by the customer to disguise true objections.

   a. Hidden objections
   b. Invalid objections
   c. Valid objections
   d. Misunderstandings

8. "Will you purchase the product if I can get you a discount?" is an example of a(n) _______________ close.

   a. Choice
   b. Summary
   c. Assumptive
   d. Conditional

Complete the following short answer questions.

9. How should a valid objection be handled?

10. How does the salesperson decide when to close the sale?

TM 4.1

Dos and Don’ts of Closing a Sale

- Do display a friendly manner at the close, even if a disagreement exists between the prospective customer and the salesperson.

- Do be sure to have all materials and equipment that will be needed.

- Do realize that begging for a sale makes the salesperson and the offer look bad. It also disgusts the prospective customer.

- Do make buying as easy and painless as possible.

- Do study the prospective customer as a pitcher studies a batter. Then pitch to his or her weakness.

- Don’t let the prospective customer know how much the sale means.

- Don’t be apologetic, particularly in quoting prices.

- Don’t make a ceremony out of closing. This may frighten the prospective customer.

- Don’t give the prospective customer an excuse or opportunity to back away from the purchase.

- Don’t ever ask the prospective customer for the buying decision in such a way that he or she can give a “Yes” or “No” answer, since the latter closes the door.

Lesson 4: Closing a Sale

Name______________________________

Identifying and Handling Objections

Objective: Recognize and address the various types of objections.

Fill out the table below using the information provided in the lesson.

TYPE OF OBJECTION	DESCRIPTION	RESPONSE
		Refute with proof of the truth
	Used to obscure the true objection	
Valid objection		

Lesson 4: Closing a Sale Name______________________________

Preparing a Sales Presentation

Objective: Prepare a script for a sales presentation.

Write a script for a sales presentation for an agricultural product. Make sure that your product knowledge is sufficient before you begin to prepare the script. The script will not be used word-for-word in an actual sales presentation but will instead provide a guideline for the presentation. The script should include each of the elements listed below.

Opening - generate customer attention, determine customer wants, and establish rapport

Body - describe features and customer benefits, allow the customer to participate, include trial closes

Handling possible objections - identify and address possible objections

Close - ask for the order

Lesson 4: Closing a Sale

Name____________________________

Making a Sales Presentation

Objective: To put together an effective sales presentation.

Materials and Equipment:

Video camera
TV and VCR

Activity Length:

Part A: 1+ hours
Part B: 10-15 minutes/student
Part C: 20-30 minutes/student

Part A: Prepare a ten- to fifteen-minute sales presentation that will appeal to the other students in your class. You will be making the presentation to one of your classmates selected by your instructor. Make sure to cover the various aspects of a sales presentation, including identifying the customer's personality, identifying needs, making the approach, performing the presentation, handling objections, and closing the sale. Have questions prepared to obtain information and plan for possible objections with responses for these objections. Use visual aids if possible.

Part B: Make the presentations, trying to obtain a commitment from the customer to make a purchase. If you are the "customer" for someone else's presentation, decide ahead of time whether you are going to give information easily or if you are going to be a tough sale. Pay close attention to the presentation to come up with possible objections and participate in the sales presentation. Evaluate the presentation using the form provided. Your instructor will arrange to videotape the presentations.

Part C: After all the sales presentations have been filmed, the entire class should view and critique them. Write down any comments you have so that you can discuss them after each presentation is shown.

Evaluate the presentation by circling the appropriate score on a scale with 0 indicating unacceptable or unobserved and 5 indicating excellent.

1. Was well prepared

   0 1 2 3 4 5

2. Approach (appropriate for the product)

   0 1 2 3 4 5

3. Created interest

   0 1 2 3 4 5

4. Established a favorable impression

   0 1 2 3 4 5

5. Determined a need or problem

   0 1 2 3 4 5

6. Well-organized information

   0 1 2 3 4 5

7. Matched customer needs to product benefits

   0 1 2 3 4 5

8. Pointed out the most obvious benefits first

   0 1 2 3 4 5

9. Got the customer involved and motivated

   0 1 2 3 4 5

10. Tried to close the sale during the presentation

    0 1 2 3 4 5

11. Established the difference between valid and hidden objections

    0 1 2 3 4 5

12. Used objections to pinpoint the needs of the customer

    0 1 2 3 4 5

13. Handled objections with a method appropriate to the situation

    0 1 2 3 4 5

14. Tried to close the sale while handling objections

0 1 2 3 4 5

15. Maintained an optimistic attitude

0 1 2 3 4 5

16. Explained all the product features completely

0 1 2 3 4 5

17. Stressed the major benefits of the product

0 1 2 3 4 5

18. Used appropriate techniques to close the sale

0 1 2 3 4 5

Based on a performance evaluation submitted by Tammy Bartholomew.

UNIT VII - MAKING A SALE

Lesson 5: Customer Service

Competency/Objective: Identify the activities the salesperson must do after the sales presentation to maintain a long-term relationship with the customer.

Study Questions

1. **How is a customer's decision to purchase supported by the salesperson?**
2. **What steps have to be completed when processing an order?**
3. **What strategies are involved in maintaining positive long-term customer relationships?**
4. **What are strategies for collecting past due accounts?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VII.

2. Activity Sheet

   a) AS 5.1: Providing Customer Service

UNIT VII - MAKING A SALE

Lesson 5: Customer Service

TEACHING PROCEDURES

A. Review

As discussed in the last lesson, the salesperson must know when and how to close the sale. Before a salesperson can successfully close the sale, he or she must handle any objections that the customer might have. This lesson will cover the activities of the salesperson after the sale. Providing good customer service is very important to ensure a long-term sales relationship.

B. Motivation

Review the topics in this unit on making a sale, including establishing a rapport, identifying customer needs, making the sales presentation, and closing the sale. Once these steps have been completed, the long-term job of the salesperson has begun--customer service. Ask the class to brainstorm about what might be involved in customer service.

C. Assignment

Have students consider what customer service will be provided for the school-based business/fund-raising activity.

D. Supervised Study

E. Discussion

1. Discuss the different ways a salesperson supports the customer's decision to make a purchase.

How is a customer's decision to purchase supported by the salesperson?

a) The salesperson should compliment the customer on his or her decision.
b) He or she should restate the benefits that the customer will gain from the purchase.
c) The salesperson should inform the customer of the delivery time of the product and assure the customer that he or she will personally check to make sure that all orders are delivered.
d) After the shipment is delivered, the sales representative should immediately contact the customer to confirm that the order was correct and that he or she is satisfied.
e) He or she should handle any problems with the delivery honestly and as quickly as possible.
f) The salesperson should be readily available to answer questions or deal with problems.

2. Ask students what the procedure is for processing an order. Discuss the steps of the procedure.

What steps have to be completed when processing an order?

a) Get the order from the customer and fill out the paperwork required to place the order. Review the order with the customer to ensure that the information is correct.
b) Discuss the method of payment for the product.
    1) For cash payment, agree on the time of payment, either immediately, at delivery, or within a certain time after delivery.
    2) For credit, explain the details of the account and call the company's credit department and get approval.
c) Place the order with the company.
d) Process all the paperwork involved in placing the order.

    1) Type up the order or enter it into a computer system.
    2) Give the customer a receipt for his or her records and deliver other copies to the supervisor, credit department, shipping department, and accounting department.

3. Have students consider any long-term customer relationships of which they are aware. Ask them what the salesperson does to maintain a positive relationship. Discuss the different strategies that may be used. Have students complete AS 5.1.

What strategies are involved in maintaining positive long-term customer relationships?

a) Stay in contact with the customer, which indicates interest in the account and gives the customer an opportunity to discuss any progress or problems.
b) Handle complaints well.
    1) Find out if the customer, product, or company is at fault.
        (a) Obtain information about the customer.
        (b) Know company policy for handling complaints.
        (c) Obtain any necessary information concerning the complaint.
    2) Compensate the customer in some way if the company or product is at fault; follow company guidelines for compensation.
    3) If the problem is due to the customer's error, be very diplomatic to avoid angering or offending the customer
c) Be reliable and honest.
    1) The salesperson should be available to help with problems.
    2) Honesty will strengthen the long-term relationship, even if the truth is uncomfortable or might cost some short-term business.

4. Discuss the different strategies used for collecting past due accounts.

What are strategies for collecting past due accounts?

a) Find out why the account is overdue by talking to the customer.
    1) The customer may not intend to pay or is waiting to pay at the last possible moment.
    2) The customer may be having financial problems.
    3) The customer may not realize the payment is due.
    4) The customer may have misunderstood the terms of the credit agreement.
b) Follow company policy.
    1) If the customer does not intend to pay or is waiting to pay at the last possible moment, the credit department should take over the collection process.
    2) If the customer is having financial problems, he or she could use the salesperson's assistance, either to help him or her through the financial problems or to work out an extended payment plan.
    3) If the customer does not realize that payment is due because he or she is a poor financial manager, the salesperson should call the customer for the payment and then remind the customer in the future when payments are due.
    4) If the customer misunderstood the terms of the credit agreement, the salesperson should meet with the customer and review the terms so no future misunderstandings will occur.

F. Other Activities

Have a local sales representative or dealer visit the class and discuss how the business handles customer service.

G. Conclusion

Customer service is an essential part of the sales process because it strengthens the long-term business relationship. The customer needs to feel secure in his or her buying decision, and providing this reassurance is the salesperson's first job after closing the sale. The salesperson must then process the order. After making a sale, the salesperson must constantly work on maintaining the long-term relationship with the customer. The salesperson should be aware of the company's policy on past due accounts so that he or she can handle them successfully.

H. Answers to Activity Sheet

AS 5.1

Answers may vary, but some suggested answers are given below.

- Ask questions about how the drill was used (settings, speed, etc.).
- Ask about the soybeans planted and any chemicals used to help eliminate any other possible problems.
- If the drill is the problem, either work to fix the problem with that drill or work with the customer to find a better drill for his needs.
- If you do not know the answers, do not be afraid to call in experts who can answer questions and help the customer.
- Never accuse or blame the customer even if he has made a mistake; work with him to educate him about the drill.

I. Answers to Evaluation

1. b
2. a
3. b
4. a
5. d
6. c

7. Stay in contact with the customer, handle complaints well, and be reliable and honest.

8. For cash payments, the salesperson and customer should agree on the time of payment, either immediately, at delivery, or within a certain time after delivery. For credit payments, the salesperson should explain the details of the account and call company's credit department and get approval to set up the account.

UNIT VII - MAKING A SALE

Lesson 5: Customer Service

Name ____________________________

Date ____________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. If the customer does not intend to pay for a product, the salesperson should:

   a. Work out an extended payment plan to allow him or her to pay later.
   b. Turn the account over to the credit department to collect payment.
   c. First call the customer and remind him or her to pay the bill immediately.
   d. Meet with the customer and review the terms of the credit agreement.

2. What is the second step in processing an order?

   a. Discuss the method of payment for the product.
   b. Process all the paperwork for the order.
   c. Compliment the customer on his or her decision.
   d. Place the order with the company.

3. What is one way a salesperson can support the customer's decision to make a purchase?

   a. Tell him or her to discuss any problems with the appropriate department in the company.
   b. Contact the customer after the delivery to make sure the order was correct.
   c. Refer any problems with the delivery to the shipping department.
   d. Emphasize the importance of paying for the product as soon as it reaches the customer.

4. What should the salesperson do if the customer has an overdue account because of financial problems?

   a. Work out an extended payment plan to allow him or her to pay later.
   b. Turn the account over to the credit department to collect payment.
   c. Call the customer and remind him or her to pay the bill immediately.
   d. Meet with the customer and review the terms of the credit agreement.

5. What is the final step in processing an order?

   a. Place the order with the company.
   b. Compliment the customer on the purchase.
   c. Restate the benefits the customer will receive.
   d. Process all the paperwork for the order.

6. The salesperson should remind the customer when payments are due if:

   a. The customer is waiting to pay at the last possible moment.
   b. The customer is having financial problems.
   c. The customer is a poor financial manager.
   d. The customer misunderstands the credit agreement.

Complete the following short answer questions.

7. What are three strategies for maintaining positive long-term relationships?

   a.

   b.

   c.

8. What should the salesperson do when discussing different methods of payment while processing an order?

Lesson 5: Customer Service Name ____________________

Providing Customer Service

Objective: Provide appropriate customer service.

Read the scenario below. Describe how a salesperson should respond to the customer to provide good customer service.

You are a salesperson for the local implement dealer. One of your customers purchased a new no-till drill and used it to plant soybeans. Now that the soybeans have started to grow, he does not feel that the drill did a good job, because he does not have as good a stand as he expected.

UNIT VIII - PROMOTIONAL TOOLS

Lesson 1: Developing a Promotional Campaign

Competency/Objective: Describe the components and purpose of a promotional campaign.

Study Questions

1. **What are the components of a promotional campaign?**
2. **What is the purpose of each of the components of a promotional campaign?**
3. **How are promotional strategies chosen?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VIII.
2. Activity Sheet
    - a) AS 1.1: Promotional Campaigns

Lesson 1: Developing a Promotional Campaign

TEACHING PROCEDURES

A. Introduction

For a business to operate, sales must take place. Promotional campaigns are important to continued sales because they can attract new customers and encourage previous customers to return. Promotional campaigns may include advertising, public relations, sales promotions, and personal selling. They are an essential part of today's business world.

B. Motivation

Ask students the following questions:

1. What do you call the item that you pull out of a cardboard box to wipe your nose when you have a cold?
2. What is the name of the item worn by babies that is disposable and is changed when dirty?
3. What is the food that comes in many different flavors and goes from being a liquid to a solid when placed in the refrigerator?

Write the students' answers on the blackboard. Then ask how many students believe that advertisements influence their behavior. How many believe that advertising has little or no influence on them? Write down how many students respond to each question.

Discuss the answers to the questions with students.

1. The correct answer to the first question is facial tissue, but most or all of the students will answer Kleenex. Kleenex is a widely promoted product name used by only one manufacturer of facial tissue.
2. The correct answer to the second question is disposable diapers. Those students who are greatly influenced by advertising will probably respond with Pampers.
3. The correct answer for the third question is gelatin. Again, students will probably answer with the product name JELL-O.

   Explain to students that advertising influences everyone, though they may not recognize its effects. The businesses that sell these products have conducted such intense promotional campaigns that the product name has become associated with the product itself.

C. Assignment

Have students start to develop any promotional materials they might need for the school-based business/fund-raising activity.

D. Supervised Study

E. Discussion

1. Ask students to list and describe the components that make up a promotional campaign.

What are the components of a promotional campaign?

a) Advertising - promotional message that a sponsor pays to have placed in different media such as newspapers and radio
b) Public relations - activities designed to create a positive image for the business in the community
c) Sales promotion - coupons, contests, visual displays, etc. designed to attract customers
d) Personal selling - sales presentations made to convince the potential customer to make a purchase

2. Have students describe the purpose of each component of a promotional campaign. Emphasize that a knowledge of these elements is important because promotional campaigns can be expensive and a business needs to use its money wisely to create sales.

What is the purpose of each of the components of a promotional campaign?

a) Advertising
  1) To inform consumers what product or service is being offered, where or when it can be purchased, and how much it costs
  2) To influence consumers' perceptions of their wants and needs
  3) To make it possible to use other components of a promotional campaign
b) Public relations
  1) To promote goodwill toward a business by creating a positive image
  2) To increase sales
c) Sales promotion - to increase the sales of a business by encouraging customers to make purchases
d) Personal selling - to use personal persuasion to convince the potential customer to make a purchase

3. Ask students how businesses determine what promotional strategy should be used. Divide the class into groups of two or three students each. Have each group select an agribusiness in the community in which they are interested. Have each group fill out AS 5.1 and then discuss the type of promotional campaign carried out by that business.

How are promotional strategies chosen?

a) The type of business and the product or service it provides will determine which promotional strategies are most effective, although the right combination of advertising, public relations, product display, and personal selling forms a promotional mix that is the formula for success for most businesses.
b) To create a successful promotional campaign, the business should know the market for its product or service.
  1) Place of residence
  2) Age
  3) Sex
  4) Income
  5) Preferred media source of information
  6) Facts about competitors from whom potential customers make purchases
  7) What motivates the targeted customers to buy
c) To help determine what promotional method is most effective, information should be gathered on the cost of the promotion, the number of people reached, the number of times potential customers come in contact with the promotional message, and the level of sales generated.
d) It is important to know how and where competitors promote their product or service in order to improve on their strategies.

F. Other Activities

1. Invite a local businessperson to discuss how he or she uses the different components of promotional campaigns in his or her business. Discuss advertising, public relations, sales promotion, and personal selling.

2. Have students prepare a sales plan for a product related to the pork industry, as outlined in the Pork Industry Sales and Marketing Contest sponsored by the Missouri Pork Producers Association.

G. Conclusion

The components of a promotional campaign include advertising, public relations, sales promotion, and personal selling. The right combination of components for a promotional campaign depends on the type of business, the market for the product, the effectiveness of various promotional strategies, and the type of competition the business faces. Promotional campaigns are an investment in sales and have become an essential part of today's business world.

H. Answers to Evaluation

1. d
2. b
3. c
4. b

5. Four elements to consider when choosing a promotional strategy are the type of business and the product or service it provides; the market for its product or service; information on the cost of the promotion, the number of people reached, the number of times potential customers come in contact with the promotional message and the level of sales generated; and how and where competitors promote their product or service.

6. Answers may include any four of the following:

   a) Place of residence
   b) Age
   c) Sex
   d) Income
   e) Preferred media source of information
   f) Facts about competitors from whom potential customers make purchases
   g) What motivates the targeted customers to buy

UNIT VIII - PROMOTIONAL TOOLS Name ______________________

Lesson 1: Developing a Promotional Campaign Date ______________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following is not a component of a promotional campaign?

   a. Advertising
   b. Personal selling
   c. Public relations
   d. Promotional mix

2. One purpose of a public relations program is:

   a. To use personal persuasion to convince the potential customer to make a purchase.
   b. To increase sales by gaining acceptance in the community for a business.
   c. To convince consumers that the business's product satisfies their needs.
   d. To promote one of the products provided by the business.

3. ____________________ consists of promotional messages placed in different media to encourage sales.

   a. Sales promotion
   b. Personal selling
   c. Advertising
   d. Public relations

4. Promotional mix refers to:

   a. The different types of advertising used to promote a business.
   b. The combination of all the components of a promotional campaign.
   c. The combination of advertising and public relations.
   d. The various activities that form a part of personal selling.

Complete the following short answer questions.

5. What are four elements to consider when choosing a promotional strategy?

   a.

   b.

   c.

   d.

6. What are four market characteristics a business should examine when trying to evaluate the market for a product or service for promotional purposes?

a.

b.

c.

d.

Lesson 1: Developing a Promotional Campaign Name ____________________

Promotional Campaigns

Objective: Analyze a promotional campaign carried out by a business.

Select an agribusiness in your community. Answer the questions below to analyze its promotional campaign.

Name of the business: ____________________

Products or services offered: ____________________

1. Where does the business advertise? What is included in its ads? How do they seek to influence customers?

2. What activities does it carry out to promote public relations?

3. How are sales promotion devices used to promote products or services and the business?

4. How is personal selling used by the business?

5. How effective is each of these components in presenting the merits of products or services or of the business as a whole? How might they be improved?

UNIT VIII - PROMOTIONAL TOOLS

Lesson 2: Advertising

Competency/Objective: Develop a print advertisement.

Study Questions

1. **What are the different advertising media?**
2. **What are the advantages and disadvantages of each medium?**
3. **What are the necessary components of an advertisement?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VIII.
2. Activity Sheet
    a) AS 2.1: Preparing a Newspaper Ad

UNIT VIII - PROMOTIONAL TOOLS

Lesson 2: Advertising

TEACHING PROCEDURES

A. Review

In Lesson 1, the different components of a promotional campaign were discussed. The components of a promotional campaign are advertising, public relations, sales promotion, and personal selling. The objective of a promotional campaign is to inform, create interest, and persuade a customer to make a purchase. This lesson will cover the different media that can be used in an advertising campaign, including newspapers, radio, television, magazines, billboards, and direct mail.

B. Motivation

1. Ask students to bring in advertisements from local newspapers, magazines, or direct mail. These advertisements can be used to discuss the different advertising media and how they can be used by businesses.

2. Ask students if they have ever seen a billboard that said, "ADVERTISING DOES NOT COST, IT PAYS" with a telephone number listed below the phrase to call for information on renting the space. Ask them what this statement means. Explain to students that billboards can be very useful in creating demand for a product or service for some businesses. Ask students if they think a lawnmower repair service, a local garden center, or a dry cleaning business would benefit from advertising on a billboard that was located on a major highway passing by a town. What businesses would benefit from a billboard in this location? Emphasize that not all types of advertising work for all businesses.

3. Have students cut out advertisements from magazines or newspapers that they think are effective and bring them to class. Discuss how the headlines or illustrations help to attract attention. Ask students what the main message of each advertisment is and what type of reader the advertiser is trying to interest.

C. Assignment

Have students develop any advertising needed for the school-based business/fund-raising activity.

D. Supervised Study

E. Discussion

1. Have students list the various types of advertising media used in their community. Discuss the most commonly used advertising media.

What are the different advertising media?

a) Print
    1) Newspaper
    2) Magazine
    3) Billboard
    4) Direct mail
b) Broadcast
    1) Radio
    2) Television
c) Internet

2. Discuss the advantages and disadvantages of the different types of advertising.

What are the advantages and disadvantages of each medium?

- a) Newspaper
  - 1) Advantages
    - (a) Generally available in most communities, which allows local businesses to reach their customers
    - (b) Large readership
    - (c) Allows coupons to be included
    - (d) Known circulation, which allows advertisers to reach targeted customers
    - (e) Useful for promoting specific items
    - (f) Can create sales quickly
    - (g) Can purchase space and print ads in a very short period, which makes changes easier
    - (h) Relatively inexpensive because of the quality of printing and paper and because some publishing costs are paid for by subscribers
  - 2) Disadvantages
    - (a) Wider circulation than the targeted customers, wasting advertising dollars
    - (b) May not be noticeable because of the large number of ads
    - (c) Limited usefulness because most subscribers dispose of newspapers after they are read
    - (d) May not be attractive because of its quality
- b) Magazine
  - 1) Advantages
    - (a) Known reader characteristics, allowing advertisers to select a magazine that targets their customers
    - (b) Read more slowly and thoroughly and kept for a longer period, increasing the chance of being read
    - (c) Higher quality ads
  - 2) Disadvantages
    - (a) Less useful for small businesses because they have a wider readership than necessary
    - (b) More expensive than newspaper ads
    - (c) Not very flexible because of deadlines for submission
- c) Billboards
  - 1) Advantages
    - (a) Can be read by many people due to location
    - (b) Relatively inexpensive
  - 2) Disadvantages
    - (a) Must have a simple message
    - (b) May be ignored by some people
- d) Direct mail
  - 1) Advantages
    - (a) Highly selective way to reach a target audience
    - (b) Can be a timely way to inform customers
    - (c) Wider choice of formats for advertising
    - (d) Can keep competitors from seeing the advertisement
  - 2) Disadvantages
    - (a) Outdated mailing lists
    - (b) Viewed as junk mail and discarded
- e) Radio
  - 1) Advantages
    - (a) Fairly inexpensive
    - (b) Available in most communities, providing wide coverage of the market that is useful for local businesses

        - (c) Can target specific types of customers by advertising on stations to which they listen
        - (d) Can reach customers anywhere a radio is present
        - (e) Flexible, since ads can be adjusted by changing the script
    - 2) Disadvantages
        - (a) Lasts only a brief time
        - (b) No visual component, which allows listeners to be distracted more easily
- f) Television
    - 1) Advantages
        - (a) Can use both visual and audio elements to attract attention
        - (b) People more likely to accept what they can see
        - (c) Can reach a mass or regional audience
    - 2) Disadvantages
        - (a) Most expensive type of advertising, which prevents or limits its use by small business
        - (b) Size of the audience fluctuates according to viewer interests
- g) Internet
    - 1) Advantages
        - (a) Can potentially reach millions of customers
        - (b) Relatively low costs compared to other forms of advertising
        - (c) Creative advertising because of the technology for sound and animation
    - 2) Disadvantages
        - (a) Difficulty in finding the advertisement of a particular business among the huge number of web pages available on the Internet
        - (b) Difficulty in determining how effective the page may be in attracting customers, leading to wasted advertising dollars

3. Ask students what components should be included in an effective print or broadcast advertisement. Contact the local community paper and get information on the size and cost of local newspaper advertisements. Have students complete AS 2.1.

What are the necessary components of an advertisement?

- a) Print advertisement
    - 1) Headline - line of print designed to catch the reader's attention; should be short with a single, simple main idea
    - 2) Copy - the main message of the advertisement
        - (a) Gives more information related to the headline
        - (b) Makes contact with the audience
        - (c) Includes a call to take action and make a purchase
    - 3) Illustration - Picture or drawing; encourages the potential customer to read the advertisement and make a purchase
    - 4) Signature or logo - the symbol of the business; generally includes the name of the business and a trademark
        - (a) Should be instantly recognizable
        - (b) May include a slogan
        - (c) May include address, telephone number, and hours of operation for a local business
- b) Radio - Script
- c) Television
    - 1) Script
    - 2) Visual component

F. Other Activities

1. Invite a representative from the local newspaper to the class, or visit a local newspaper. Discuss how advertisements are created. Show students advertising layouts and how different businesses use different layouts to create demand for their particular product or service.

2. Visit a local radio station and discuss how radio advertisements are developed. Discuss advertising scripts and songs or jingles.

3. Have students put together a television commercial. Film the commercial.

G. Conclusion

A business has many alternatives when creating an advertisement. The type of business and the targeted customer are major factors in determining the advertising needs of a business. It is always important to remember that advertising is an expense and must be accounted for in the business budget. The best advertisements create the most demand for the least amount of money.

H. Answers to Evaluation

1. b
2. b
3. d
4. d
5. c
6. a

7. Answers may include any three of the following:

    - Generally available in most communities, which allows local businesses to reach their customers
    - Large readership
    - Allows coupons to be included
    - Known circulation, which allows advertisers to reach targeted customers
    - Useful for promoting specific items
    - Can create sales quickly
    - Can purchase space and print ads in a very short period, which makes changes easier
    - Relatively inexpensive because of the quality of printing and paper and because some publishing costs are paid for by subscribers

8. Print - Newspaper, magazine, billboard, direct mail; broadcast - radio, television; Internet

9. Television advertising is the most expensive type of advertising, which keeps many small businesses from using television for advertising or limits them to using it only during less desirable time slots when rates are cheaper.

10. The signature is the symbol of the business. It generally includes the name of the business and a trademark. It may also include a slogan. The signature of a local business may include its address, telephone number, and hours of operation.

Name ______________________________

Lesson 2: Developing an Advertisement

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Why is magazine advertising in general not an effective method for small or local businesses?

   a. Low cost
   b. Wide circulation
   c. Specific audiences
   d. Higher quality ads

2. What is the main advantage television advertising has over radio advertising?

   a. Television advertising is usually cheaper than radio advertising.
   b. The potential customer can hear and see the advertisement.
   c. Television is readily available in almost any community.
   d. Audience size is always assured when using television.

3. What is one purpose of the copy of an advertisement?

   a. To catch the reader's attention
   b. To symbolize the business
   c. To illustrate the product or service
   d. To give the reader more information

4. One of the disadvantages of billboard advertising is that:

   a. It is relatively expensive to use.
   b. The size of the audience fluctuates.
   c. Many people can read it.
   d. The message must be simple.

5. The headline is:

   a. The main message of the advertisement.
   b. The symbol, logo, or trademark of the business.
   c. The line of print designed to attract attention.
   d. The name and phone number of the business.

6. Which of the following is an advantage of direct mail advertising?

   a. It provides a wider choice of formats.
   b. Advertisements are read very carefully.
   c. Mailing lists are usually updated frequently.
   d. Direct mail advertising is very expensive.

Complete the following short answer questions.

7. What are three advantages of advertising in newspapers?

   a.

   b.

   c.

8. What are the three categories of advertising media? List the media that belong in each category.

   a.

   b.

   c.

9. What is the main disadvantage of television advertising for small businesses?

10. In a print advertisement, what is the signature or logo? What might be included in the signature for a business?

Lesson 2: Advertising

Name ____________________________

Preparing a Newspaper Ad

Objective: Prepare a print advertisement for a newspaper.

Develop a newspaper advertisement, including both art and text, for an agribusiness. Then draw a rough sketch of the layout of the ad on the back of this sheet.

1. What are the products or services being advertised?

2. What is the headline for the ad?

3. What is the copy?

4. What type of illustration will be included? How will it represent the features of the product or service?

5. What is the signature of the product or service being advertised?

6. How many column inches will the newspaper advertisement be?

7. What is the cost per column inch to place an ad in the local newspaper?

8. What is the estimated cost of the advertisement?

UNIT VIII - PROMOTIONAL TOOLS

Lesson 3: Public Relations

Competency/Objective: Develop a public relations campaign.

Study Questions

1. **What is the function of a public relations campaign?**
2. **What are the components of a public relations campaign?**
3. **What are the reasons for using each of the components?**
4. **How is a public relations campaign developed?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit VIII.
2. Activity Sheet
    a) AS 3.1: Public Relations

UNIT VIII - PROMOTIONAL TOOLS

Lesson 3: Public Relations

TEACHING PROCEDURES

A. Review

In Lesson 2, the different types of advertising media used by businesses were discussed, including newspapers, radio, television, magazines, billboards, and direct mail. Many businesses use a combination of different media to form a complete advertising program for promotions. This lesson will cover the ways public relations can be used as a tool to promote a business. The main function of a public relations campaign is to build goodwill in the community. A public relations campaign can become very important to the success of a business.

B. Motivation

Ask students to describe some public relations strategies used by businesses that they have recognized. Discuss how businesses might use television commercials to build goodwill toward the business more than to advertise a particular product or service. For example, commercials for insurance companies like State Farm ("Like a good neighbor") and Allstate ("You're in good hands") are designed to build trust in the company that sells the product. Discuss other commercials that promote good public relations. Discuss how companies such as McDonald's sponsor charities to create goodwill.

C. Assignment

Discuss the types of public relations necessary for the school-based business/fund-raising activity.

D. Supervised Study

E. Discussion

1. Ask students to describe the purpose of a public relations campaign.

   What is the function of a public relations campaign?

   a) The main function of a public relations campaign is to build goodwill in a community toward a business.
   b) It should also contribute to an increase in sales.

2. Have students list various public relations activities. Discuss the different ways businesses promote goodwill in the local community.

   What are the components of a public relations campaign?

   a) Community participation
   b) Educational tours
   c) Support for youth (sponsorships of awards and activities)
   d) Press releases to local media
   e) Advertisements
   f) Speakers for community groups
   g) Company periodicals
   h) Provide facilities for community purposes

3. Discuss the importance of putting together the public relations campaign that best fits a particular business. Ask students what the purposes of each of the components of a public relations program are.

What are the reasons for using each of the components?

a) Community participation
    1) To show that the business recognizes that it is a part of the community and must contribute to it
    2) To identify problem areas and work to correct them to foster a better attitude toward the business
b) Educational tours
    1) To help the youth and other members of a community obtain a better understanding of the business and its product
    2) To show real-life examples, which add interest to education
c) Support for youth
    1) To encourage parents to support the business in return
    2) To retain the loyalty of young people
d) Press releases
    1) To get publicity
    2) To create a stable image of a business
    3) As a very cost-effective method of public relations
e) Advertisements - to create positive feelings toward the business
f) Speakers
    1) To provide general information that is useful to the audience
    2) To publicize a product or service
g) Company periodicals - to make employees aware of company news and activities in order to enable and encourage them to promote the business
h) Use of facilities - to encourage public to support the business in return

4. Discuss with students how a public relations program should be developed to meet a business's needs. Divide the class into groups of three or four. Have each group select a business that uses public relations as a tool. Ask them to discuss the components of its public relations program, the way they create goodwill, and how the program might be improved on a limited budget. Have the students complete AS 3.1.

How is a public relations campaign developed?

a) Consider the business's targeted customers. Public relations should be appropriate for the audience.
b) Consider budgetary constraints. Businesses with little or no budget can take advantage of inexpensive public relations activities.
c) Determine who will be responsible for the campaign. In larger businesses, the work and decisions should be made by more than one person; a public relations advisory committee often works well.
d) Monitor the public relations campaign once it is started to see if goals are being reached, and make decisions about changes when necessary.
e) Designate someone to be responsible for reporting public relations activities to local news media.
f) The business and its management should recognize employees who donate their time creating goodwill in the community.
g) The best form of public relations is making sure customers are satisfied.

F. Other Activities

Have students plan a public relations campaign to be carried out during FFA Week to promote FFA and the agricultural program at the school.

G. Conclusion

The function of a public relations program is to build goodwill in the community. Community participation, educational tours, sponsorship of youth awards and activities, media coverage, informational speakers, and the use of business facilities are some of the activities businesses use to form a public relations campaign. The best public relations comes from a history of satisfied customers and employees.

H. Answers To Evaluation

1. c
2. c
3. a
4. d
5. b

6. Answers may include any three of the following.

   - Consider the business's targeted customers. Public relations should be appropriate for the audience.
   - Consider budgetary constraints. Businesses with little or no budget can take advantage of inexpensive public relations activities.
   - Determine who will be responsible for the campaign. In larger businesses, the work and decisions should be made by more than one person; a public relations advisory committee often works well.
   - Monitor the public relations campaign once it is started to see if goals are being reached, and make decisions about changes when necessary.
   - Designate someone to be responsible for reporting public relations activities to local news media.
   - The business and its management should recognize employees who donate their time creating goodwill in the community.
   - The best form of public relations is making sure customers are satisfied.

7. The eight components of a public relations campaign are as follows: community participation, educational tours, monetary support for community or national organizations, press releases to local media, advertisements, speakers for community groups, company periodicals, and provide facilities for community purposes.

UNIT VIII - PROMOTIONAL TOOLS

Lesson 3: Public Relations

Name ______________________________

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What is the main function of a public relations program?

   a. To promote a particular product of a business
   b. To promote a particular service of a business
   c. To create goodwill in a community toward a business
   d. To offset the production of an unsatisfactory product or service

2. What is important when developing a public relations campaign?

   a. To have one person organizing and operating the campaign, if possible
   b. To spend a lot of money developing and implementing the campaign
   c. To have more than one person planning the campaign, if possible
   d. To be consistent and avoid making any changes in the campaign

3. What is the secondary function of a public relations campaign?

   a. To contribute to an increase in sales
   b. To gloss over problems in the business
   c. To make the owner of the business popular
   d. To make the business look good

4. Which of the following is a very cost-effective method of public relations?

   a. Contributions to charities
   b. Advertising campaigns
   c. Scholarships
   d. Press releases

5. What is one reason that a business might provide speakers for community groups?

   a. To create a stable image for the business
   b. To provide general information that is useful to the audience
   c. To help the community obtain a better understanding of the business structure
   d. To keep the community informed about the public relations campaign

Complete the following short answer questions.

6. What are three steps in developing a public relations campaign?

   a.

   b.

   c.

7. What are eight components of a public relations campaign?

a.

b.

c.

d.

e.

f.

g.

h.

Lesson 3: Public Relations Name ______________________

Public Relations

Objective: Evaluate the use of public relations by a business.

Select a business in the community that has a public relations campaign. Evaluate the campaign by answering the following questions.

Name of the business: ____

1. What types of public relations activities are used by the business?

2. Are they effective? If so, how do they create goodwill in the community? If not, why not?

3. What might be done to improve the business's public relations campaign? Assume that the budget for changes is limited.

UNIT IX - ENTREPRENEURSHIP

Lesson 1: The Free Market System

Competency/Objective: Describe the basic concepts of a free market system.

Study Questions:

1. **What are the characteristics of American free enterprise?**
2. **What is the definition of an entrepreneur?**
3. **What are the advantages and disadvantages of being an entrepreneur?**
4. **What factors affect the success or failure of small businesses?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IX.
2. Transparency Masters
    - a) TM 1.1: Characteristics of a Free Enterprise System
    - b) TM 1.2: Characteristics of Successful Entrepreneurs
3. Activity Sheet
    - a) AS 1.1: Entrepreneurship

Lesson 1: The Free Market System

TEACHING PROCEDURES

A. Introduction

The U.S. economy is based on a free enterprise system. This system allows and encourages private individuals and businesses to carry on the production of goods and services. Any individual with an idea and the available capital can take a risk and start a business. Many opportunities exist today to take an idea and, with an entrepreneurial approach, develop it into a successful business. Starting a business takes planning, both before the business begins and every day after it is started. Successful entrepreneurs are able to meet the needs of consumers by supplying products and services that consumers want.

B. Motivation

Have the students complete AS 1.1. Discuss their responses. Ask students what types of businesses they would be interested in starting and what products or services they would offer. Discuss similar businesses in the community and have the students describe what they would do differently from their competitors. Do they believe they might be more successful than other businesses that offer the same products or services?

C. Assignment

D. Supervised Study

E. Discussion

1. Have students list and describe the characteristics of a free enterprise system. Discuss the operation of the free enterprise system in the United States. Use TM 1.1 to emphasize the characteristics of free enterprise.

What are the characteristics of American free enterprise?

a) Free enterprise system - An economic system in which goods and services are produced and traded through a complicated system of prices and markets by private individuals and businesses
b) Four characteristics of American free enterprise
    1) Land and capital (buildings, machinery, and other equipment used to produce goods and services) for production are privately owned.
    2) Economic activity is organized and coordinated through the interaction of buyers and sellers or buyers and producers in the different markets.
        (a) Consumer sovereignty refers to the freedom of consumers to spend income in ways that will create the most satisfaction for them.
        (b) Due to consumer sovereignty, producers in a free enterprise system will be forced by competition to produce what best satisfies the needs of consumers.
    3) The owners of land and capital and the workers that they employ are free to pursue their interests in seeking the maximum gain from the use of their resources and labor in production.
    4) A minimum of government supervision is required.
        (a) Economic activity is self-regulated through competition in the marketplace for the consumer, which renders government involvement less necessary.

(b) · Freedom of choice introduces this competition. Anyone has the right to invest his or her money in any type of business and compete with others in the marketplace.

2. Ask students to define what an entrepreneur is. Discuss how individuals become entrepreneurs by setting up businesses to produce products or offer services that are wanted by the consumer. TM 1.2 outlines the characteristics of a successful entrepreneur.

What is the definition of an entrepreneur?

a) Entrepreneur - A person who organizes and manages a business, assuming the risk for the reward of profit
b) Characteristics of successful entrepreneurs
    1) Display creativity in problem solving
    2) Take responsibility for their own actions and accept the blame for failures or problems
    3) Develop plans and work to achieve goals
    4) Ask others for advice and are open-minded leaders
    5) Have good interpersonal skills and can get others to follow directions

3. Ask the students to discuss some of the advantages and disadvantages of becoming an entrepreneurship.

What are the advantages and disadvantages of being an entrepreneur?

a) Advantages
    1) Allows a person to be his or her own boss and control his or her own destiny
    2) Offers the chance to make a profit
    3) Offers a chance to capitalize on creativity by starting a business based on an idea
    4) Offers a chance to feel pride and self-satisfaction
    5) Allows the individual to be involved in all parts of a business and to perform a variety of tasks
b) Disadvantages
    1) Involves taking financial risks with no guarantee of returns
    2) Sometimes requires more time and energy than a regular job, especially when first starting the business

4. Ask the students what factors affect the success and failure of small businesses. Discuss with students the importance of advance planning for a business.

What factors affect the success or failure of small businesses?

a) A major reason businesses fail is lack of advance planning.
b) Consumers may not demonstrate enough demand for certain products or services.
c) Competitors may be more efficient, be able to sell a product or service for less, or have better qualified employees.

F. Other Activities

Invite a local entrepreneur to talk to students about starting a business. Discuss the planning needed to start and run a business. Have him or her address how competition affects a business.

G. Conclusion

An entrepreneur has to look for a good business opportunity, based on what consumers want, and then develop a plan to start a business that satisfies the demand for that product or service. By identifying demand and then meeting it, entrepreneurs have become an important part of the United States economy.

H. Answers to Activity Sheet

AS 1.1

Answers will vary.

I. Answers to Evaluation

1. b
2. d

3. An entrepreneur is a person who organizes and manages a business, assuming the risk for the reward of profit.

4. One of the most important factors in the failure of a small business is a lack of advance planning. Also, consumers may not demonstrate enough demand for certain products or services, or the competition may be more efficient, be able to sell the product or service for less, or have better qualified employees.

5. Answers may include any of the following advantages and disadvantages.
   Advantages
   - Allows a person to be his or her own boss and control his or her own destiny
   - Offers the chance to make a profit
   - Offers a chance to capitalize on creativity by starting a business based on an idea
   - Offers a chance to feel pride and self-satisfaction
   - Allows the individual to be involved in all parts of a business and to perform a variety of tasks

   Disadvantages
   - Involves taking financial risks and with no guarantee of returns
   - Sometimes requires more time and energy than a regular job, especially when first starting the business

UNIT IX - ENTREPRENEURSHIP

Name ______________________________

Lesson 1: The Free Market System

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following is not a characteristic of American free enterprise?

    a. Economic activity is organized and coordinated through the interaction of buyers and sellers or buyers and producers in the different markets.
    b. Government supervision is extensive.
    c. Land and capital are privately owned.
    d. The owners of land and capital and the workers that they employ are free to pursue their interests in seeking maximum gain from the use of their resources and labor in production.

2. What is consumer sovereignty?

    a. The freedom to consume huge quantities of goods and services
    b. The freedom to seek to profit from consumers
    c. The freedom to compete for consumers
    d. The freedom to spend income in ways that will create the most satisfaction

Complete the following short answer questions.

3. What is an entrepreneur?

4. List three factors that may cause the failure of a small business.

    a.

    b.

    c.

5. List one advantage and one disadvantage of being an entrepreneur.

Characteristics of a Free Enterprise System

A free enterprise system is an economic system in which goods and services are produced and traded through a complex system of prices and markets by private individuals and businesses.

* Land and capital for production are privately owned.

* Economic activity is organized and coordinated through the interaction of buyers and sellers or buyers and producers in the different markets.

* The owners of land and capital and the workers they employ are free to pursue their interests in seeking the maximum gain from the use of their resources and labor in production.

* A minimum of government supervision is required.

Characteristics of Successful Entrepreneurs

An entrepreneur is a person who organizes and manages a business, assuming the risk for the reward of profit.

- Successful entrepreneurs are creative thinkers and good problem-solvers.
- Successful entrepreneurs take responsibility for their own actions and accept blame for failure or problems.
- Successful entrepreneurs develop plans and work to achieve goals.
- Successful entrepreneurs are open-minded leaders who are not afraid to ask for advice.
- Successful entrepreneurs have good interpersonal skills and can get others to follow directions.

Lesson 1: The Free Market System Name ______________________________

Entrepreneurship

Objective: Evaluate opportunities for entrepreneurship within a community.

Answer the questions below to evaluate opportunities for entrepreneurship in your community.

1. What types of businesses would you like to see in your community?

2. If you were going to start a business, what type of product or service would you produce or offer?

3. What other businesses in your community produce or sell the same product or offer the same service?

4. What would you do differently from those businesses already existing in the community?

5. What other opportunities exist in the community for starting a business?

Lesson 2: Business Ownership

Competency/Objective: Identify the forms and characteristics of business ownership.

Study Questions:

1. **What are the types of businesses?**
2. **What are the types of business ownership?**
3. **What are the advantages and disadvantages of different forms of ownership?**
4. **What regulations may affect the start-up of a business?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IX.
2. Transparency Master
    a) TM 2.1: Forms of Business Ownership
3. Activity Sheets
    a) AS 2.1: Forms of Business Ownership
    b) AS 2.2: Business Ownership

UNIT IX - ENTREPRENEURSHIP

Lesson 2: Business Ownership

TEACHING PROCEDURES

A. Review

Lesson 1 examined the concept of the free enterprise system, an economic system in which production and trade of goods and services are carried out by private individuals and business firms through a system of prices and markets. In this lesson, the forms and characteristics of business ownership and the laws and regulations that must be understood to start a business will be discussed.

B. Motivation

Ask students how they would start a business. Discuss how they would raise the capital to start a business. Would they start a business by raising all of the money by themselves? Would they go into business with someone else and share the start-up costs with a partner? Would they ask others to invest, and if so, how would they pay the investors back? If they went into a business with a partner or had other investors in their business, who would receive the profits from the business?

C. Assignment

D. Supervised Study

E. Discussion

1. Inform students that different types of businesses may be formed. Ask students to name some types of businesses.

   What are the types of businesses?

   a) Manufacturers, processors, and producers - Businesses involved in taking raw materials and making them into a marketable product
   b) Middlemen - Individuals or businesses that specialize in performing the various market functions involved in the purchase and sale of goods as the goods move from the manufacturer, processor, or producer to the consumer
      1) Retailers are middlemen who buy products to sell them directly to the ultimate consumer.
      2) Wholesalers sell to retailers, other wholesalers, and industrial users, but they do not sell significant amounts of merchandise to consumers. Wholesalers may handle many products or specialize in one product.
   c) Service businesses - Businesses that do not provide a tangible product but instead offer a service to consumers or other businesses

2. Ask students to describe the different ways that business ownership is organized. Discuss with students the importance of knowing what type of ownership would benefit the business being started. Discuss how the amount of capital needed to start a business can be a deciding factor in choosing a form. TM 2.1 may be used to illustrate the different forms of ownership; AS 2.1 can be used in conjunction with the TM, or it may be used separately. Have students research the types of ownership for businesses in their community and then complete AS 2.2.

What are the types of business ownership?

- a) Sole proprietorship - The business is owned by one person who is in sole charge of the business and is responsible for its success or failure.
- b) Partnership - A partnership is a business association of two or more persons who have agreed to combine their financial assets, labor, property, and skills.
- c) Corporation - The corporation is a separate legal entity owned by other people. Corporations are established by raising capital from the sale of certificates of stock to shareholders. They receive a share of the profits through dividends based on the number of shares they own.
- d) Cooperative - Cooperatives are a system of economic action and business enterprise characterized by the absence of the profit motive. Their primary function is the distribution of goods and services. A cooperative is made up of individuals or individual businesses that join together to market their goods or services, which helps them to reduce costs.

3. Have students list some advantages and disadvantages of each form of ownership. Discuss the advantages and disadvantages of the different types of ownership.

What are the advantages and disadvantages of different forms of ownership?

- a) Sole proprietorship
  - 1) Advantages
    - (a) The owner of the business is his or her own boss.
    - (b) Consensus on decisions does not have to be obtained from partners or other owners.
    - (c) A sole proprietorship is easier to get started than other forms of ownership.
    - (d) The sole proprietor receives all profit from the business.
    - (e) Profits are taxed only once.
  - 2) Disadvantages
    - (a) A sole proprietor is seldom able to invest a large amount of capital in a business.
    - (b) Liability is unlimited. A sole proprietor is personally responsible for all the debts and taxes of the business.
    - (c) In a sole proprietorship everything is done by the owner. If a sole proprietor becomes sick or has personal problems, no one else may be able to operate the business.
- b) Partnership
  - 1) Advantages
    - (a) A partner shares business management responsibilities and problems.
    - (b) Financial institutions are more likely to lend money to partners because more than one person is responsible for debts of the business.
    - (c) Profits are shared only by the partners.
    - (d) Profits are taxed only once.
  - 2) Disadvantages
    - (a) Due to unlimited liability, if one partner goes bankrupt, the other partners are still responsible for the debt.
    - (b) Each partner in a partnership can enter into an agreement without the permission of the other partners, yet all the partners are responsible for fulfilling the contract.
- c) Corporation
  - 1) Advantages
    - (a) Liability is limited. The debts of the corporation are the responsibility of the corporation and not of the individual stockholders.
    - (b) If the corporation is doing well, getting a loan is easier than for a partnership or a sole proprietorship.
    - (c) Corporations can sell additional shares of stock to raise capital.

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- 2) Disadvantages
  - (a) A corporate certificate may be expensive.
  - (b) Decision making may be difficult because all corporate decisions must be approved by the shareholders or directors.
  - (c) Profits on corporations are taxed twice.
- d) Cooperative - The advantage of this form of ownership is that the individuals or businesses involved cooperate with each other and are able to reduce costs. The disadvantage is that the cooperative is not established to create a profit as a business.

4. Discuss with students the laws and regulations that affect businesses.

What regulations may affect the start-up of a business?

- a) Individuals starting a business must understand the laws regarding contracts, which are legal agreements that create an obligation binding the parties entering into them
  - 1) Enforceable contracts have five elements: capacity, consent, genuine assent, legality, and consideration.
  - 2) Written contracts - Contracts that cannot be performed within a year after they are made, contracts involving the sale or transfer of real estate, and contracts involving the sale of goods above $500 in value must be written to be enforceable.
  - 3) Oral contracts - In some cases, they are as legally binding as written contracts. However, oral contracts allow parties to become confused about the terms of the agreement or to forget details.
    - (a) Oral contracts are the best way of doing business when small amounts of money are immediately exchanged for goods.
    - (b) Due to the increased possibility of misunderstandings, oral contracts should not be used when buying or selling vehicles, real estate, supplies and equipment, or for other transactions involving large amounts of money.
    - (c) It is hard to prove that an oral contract has not been fulfilled if legal action needs to be taken.
- b) A new business must obtain the proper licenses and permits to operate. Some businesses need licenses or permits required by federal, state, or local governments. Special training or testing may be required to obtain a license or permit, as may periodic inspections of a business.
- c) Zoning and building codes are rules and regulations passed and enforced by federal, state, or local government agencies. They are designed to protect citizens.
  - 1) Building codes include standards for safety, electricity, and plumbing. They also may include standards for the type and design of business structures.
  - 2) Zoning laws may permit only residential or business buildings in certain areas of a community.
- d) Health and safety laws establish standards for working conditions to protect workers.
  - 1) Child labor laws set the minimum age for workers.
  - 2) Environmental safety standards protect the health of employees.
- e) Laws and regulations have been established to prevent discrimination in hiring due to gender, age, religion, and national or ethnic origin.
- f) Laws have been established by the federal government setting a minimum wage for employees.

F. Other Activities

Invite representatives of each form of business in the local community (or as many as possible) to discuss their businesses with the class.

G. Conclusion

Businesses differ according to the type of activity they carry out. For example, a business may involve manufacturing, processing, or producing an item; making wholesale or retail sales; or providing some sort of service. The four types of business ownership are sole proprietorship, partnership, corporation, and cooperative, each of which has advantages and disadvantages. The type of ownership chosen when starting a business may be determined by the amount of capital available to the entrepreneur as well as by the needs of the business. Also, the entrepreneur must consider the various laws and regulations governing the operation of businesses.

H. Answers to Evaluation

1. b
2. a
3. a
4. d

5. Answers should include one advantage and one disadvantage.

   Advantages
   - A partner shares business management responsibilities and problems.
   - Financial institutions are more likely to lend money to partners because more than one person is responsible for debts of the business.
   - Profits are shared by partners.
   - Profits are only taxed once.

   Disadvantages
   - Due to unlimited liability, if one partner goes bankrupt, the other partner is still responsible for the debt.
   - Each partner in a partnership can enter into an agreement without the permission of the other partners, yet the other partners are still responsible for fulfillment of the contract.

6. Middlemen are individuals or businesses that specialize in performing the various market functions involved in the purchase and sale of goods as the goods move from the manufacturer, processor, or producer to the consumer. Retailers and wholesalers are two types of middlemen.

UNIT IX - ENTREPRENEURSHIP Name ____________________

Lesson 2: Business Ownership Date ____________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. A ____________________ is made up individuals or individual businesses that join together to market their goods or services.

   a. Partnership
   b. Cooperative
   c. Sole proprietorship
   d. Corporation

2. Which of the following is an advantage of a sole proprietorship?

   a. All profits are taxed only once.
   b. A sole proprietor is personally responsible for all the debts of a business.
   c. Liability is limited.
   d. Getting a loan is easier for a sole proprietorship than for a corporation.

3. Which of the following is an example of the health and safety laws that may affect a new business?

   a. Child labor laws
   b. Building codes
   c. Zoning restrictions
   d. Licensing laws

4. Which of the following is not an advantage of a corporation?

   a. Liability is limited; stockholders are not responsible for debts.
   b. Getting a loan is easier for a corporation than for other types of businesses.
   c. Corporations can sell additional shares of stock to raise capital.
   d. The individuals involved always cooperate with each other and are able to reduce costs.

Complete the following short answer questions.

5. What are one advantage and one disadvantage of forming a partnership?

6. What are middlemen? Name two types of middlemen.

Forms of Business Ownership

Features Compared	Types of Businesses			
	Individual	Partnership	Corporate Forms	
			Regular Corporation	Cooperative Corporation
1. Who uses the services?	Non-owner customers	Generally non-owner	Generally non-owner customers	Chiefly the owner-patrons
2. Who owns the business?	The individual	The partners	The stockholders	The member-patrons
3. Who votes?	None necessary	The partners	Common stockholders	The member-patrons
4. How is voting done?	None necessary	Usually by partners' share in capital	By shares of common stock	One member, one vote or proportional to patronage
5. Who determines policies?	The individual	The partners	Common stockholders and directors	The member-patrons and directors
6. Are returns on ownership capital limited?	No	No	No	Yes - 8 percent or less
7. Who gets the operating proceeds?	The individual	The partners in proportion to interest in business	The stockholders in proportion to stock held	The patrons on a patronage basis

TM 2.1

Lesson 2: Business Ownership Name ____________________

Forms of Business Ownership

Objective: Identify characteristics of different forms of business ownership.

Fill in the table below, answering the questions for each type of business ownership.

Features Compared	**Types of Businesses**			
			Corporate Forms	
	Individual	**Partnership**	**Regular Corporation**	**Cooperative Corporation**
1. Who uses the services?				
2. Who owns the business?				
3. Who votes?				
4. How is voting done?				
5. Who determines policies?				
6. Are returns on ownership capital limited?				
7. Who gets the operating proceeds?				

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Lesson 2: Business Ownership

Name ______________________

Business Ownership

Objective: Identify the types of business ownership.

Research and record the type of ownership for one business in your community in each of the following areas.

1. Grocery store

   Name of business: ______________________

   Type of ownership: ______________________

2. Law firm

   Name of business: ______________________

   Type of ownership: ______________________

3. Telephone company

   Name of business: ______________________

   Type of ownership: ______________________

4. Water utility company

   Name of business: ______________________

   Type of ownership: ______________________

5. Electric utility company

   Name of business: ______________________

   Type of ownership: ______________________

6. Farm supply or department store

   Name of business: ______________________

   Type of ownership: ______________________

7. Automobile dealer

   Name of business: ______________________

   Type of ownership: ______________________

8. Livestock auction

Name of business: ____________________

Type of ownership: ____________________

9. Animal feed supplier or distributor

Name of business: ____________________

Type of ownership: ____________________

10. Hospital or medical center

Name of business: ____________________

Type of ownership: ____________________

UNIT IX - ENTREPRENEURSHIP

Lesson 3: Evaluating Business Opportunities

Competency/Objective: Identify and evaluate business opportunities.

Study Questions

1. **How are business opportunities recognized?**
2. **What are the uses of a business plan?**
3. **What are the steps in developing a business plan?**
4. **Why are business goals important?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IX.
2. Transparency Master
   a) TM 3.1 : Steps in Developing a Business Plan
3. Activity Sheets
   a) AS 3.1 : Business Opportunities
   b) AS 3.2 : Business Plan

UNIT IX - ENTREPRENEURSHIP

Lesson 3: Evaluating Business Opportunities

TEACHING PROCEDURES

A. Review

In the last lesson, the different types of business ownership and the advantages and disadvantages of each were discussed. The different types of ownership are sole proprietorship, partnership, corporation, and cooperative. The type of business ownership chosen may depend on the entrepreneur's ability to raise the capital to start a business. Lesson 3 will examine how to evaluate business opportunities. It will discuss how ideas for a business can be generated and how to test an idea to see if a proposed business may be successful.

B. Motivation

Ask students to define the concept of a business opportunity. Ask them if an idea and an opportunity are the same thing. Explain that an entrepreneur recognizes opportunities and develops ideas from them. Ask students why they may favor one business over another even when they offer the same product. List the reasons on the board, and then discuss how opportunity is connected to choice.

C. Assignment

1. At the end of Unit 9, students should present the business plans that they put together in this lesson. If the instructor wishes, students may also include copies of the various financial statements discussed in later lessons (balance sheet, income, and cash flow) as they would if they were presenting their business plans to obtain financing. In the presentation, students should also discuss where and how they would obtain financing for their businesses, which is covered in Lesson 7.

2. Develop a business plan that is appropriate for the school-based business/fund-raising activity.

D. Supervised Study

E. Discussion

1. Discuss how an entrepreneur takes advantage of an opportunity by developing an idea for a business. Divide the class into groups of three or four students and ask each group to think of business opportunities in the community. Have the groups fill out AS 3.1 and then discuss their ideas with the class.

   How are business opportunities recognized?

   Opportunities for starting a business exist whenever people want and are willing to pay for goods or services. Entrepreneurs searching for business opportunities look for certain things.
   a) They notice changes or trends that will create new opportunities or change existing ones.
   b) They look for good ideas that could be better executed.
   c) They look for needs and wants that are not being met by existing businesses.
   d) They look for new ways to meet the needs and wants of consumers.

2. Ask students what a business plan is. Discuss how a business plan is used.

What are the uses of a business plan?

a) A business plan is a detailed proposal that describes all aspects of a new business, including its operations, marketing, and finances, for the use of the entrepreneur as well as investors and financial institutions.

b) A business plan has several uses.
   1) Helps an entrepreneur evaluate ideas to determine if it takes advantage of available opportunities
   2) Helps an entrepreneur determine whether or not the market can support a particular type of business
   3) Helps a proposed business obtain financing
   4) Serves as an operating guide once a business is open

3. Explain to the students that a step-by-step procedure is followed to develop a business plan. Ask them what things must be considered, and use TM 3.1 to illustrate the process of developing a business plan. Have students complete AS 3.2.

What are the steps in developing a business plan?

a) The first step in a business plan is developing an idea for a business, which is the foundation of the plan. The business plan evaluates and expands on the idea.

b) The next step in a business plan is learning about possible competitors.
   1) List of competitors
   2) Information on pricing
   3) Information on quality
   4) Information on competitors' marketing methods
   5) Plans for adjusting the idea to be competitive in these areas

c) The business plan should include information on the market for the product or service.
   1) Ages of potential customers
   2) Sex
   3) Income levels
   4) Location of proposed customers
   5) Interests
   6) Whether price, quality, service, or selection attracts the potential customer

d) The business plan should include all resources that will be needed to start and operate the proposed business and to help the entrepreneur evaluate whether he or she has enough capital to open and operate the business.
   1) Raw materials/merchandise
   2) Technical equipment or expertise needed to make a product or offer a service
   3) Fixtures
   4) Office and bookkeeping supplies
   5) Sales and promotional supplies
   6) Capital needed to purchase resources
   7) Number of additional employees (besides the owner) needed to operate the business

e) The business plan should include information about laws and regulations that will affect the operation of a business.
   1) Zoning and building codes
   2) Health and safety standards
   3) Discrimination laws
   4) Advertising laws
   5) Employee pension regulations
   6) Contracts into which the business will need to enter
   7) Necessary licenses and permits
   8) Estimated cost of complying with laws and regulations

f) The business plan should include a marketing plan--a program for achieving the forecasted sales for the proposed business.

        1) Information on whether or not it is necessary to advertise
        2) Information on whether sales will be constant or seasonal
        3) Estimated cost of the marketing plan
    g) The proposed location of the business should be included in the business plan.
        1) Location of business
        2) Size of the building
        3) Whether the building will be rented or purchased
        4) Room for expansion
        5) Location of competitors
        6) Location of potential customers
        7) Zoning and building codes
        8) Whether the location fits type of business
        9) Whether it is conveniently placed and easily accessible
    h) The last component of a business plan is financial projections for the proposed business.
        1) Estimated sales for the first year
        2) Estimated income and expenses for the first year
        3) Income statement, balance sheet, and cash flow statement

4. Discuss with students why setting short- and long-term business goals is important. Explain that the ultimate goal of all businesses is to make a profit.

   Why are business goals important?

   Goals are important because they can be used to set operating policies.

F. Other Activities

Divide the class into groups of three or four students each. Have the groups list opportunities for school fund-raising. Have each group describe the opportunities, and explain how the opportunities might be turned into business ideas.

G. Conclusion

Opportunities for starting a business exist when people want a good or service that is not available and are willing to pay for it. Entrepreneurs recognize business opportunities and develop ideas for businesses to take advantage of opportunities. A business plan is a valuable tool that tests business ideas to evaluate whether they are worth pursuing. In addition, the plan can be used to help a proposed business obtain financing and to guide the business once it is started. Goals and objectives are important to a business because they can guide business operations. They can be expanded as the business grows.

H. Answers to Evaluation

1. c
2. b

3. An entrepreneur should look for changes or trends that will create new opportunities or change existing ones, good ideas that could be better executed, needs and wants that are not being met by existing businesses, and new ways of meeting the needs and wants of customers.

4. Goals are important because goals can be used to set operating policies.

5. The nine elements of a business plan are as follows:
   - Idea for a business
   - Information on competition
   - Information on the market
   - Resources needed to start and operate the business

- Information on the laws and regulations that will affect the operations of a business
- Marketing plan
- Plans for the proposed location of the business
- Financial projections for the proposed business

UNIT IX - ENTREPRENEURSHIP

Name ______________________

Lesson 3: Evaluating Business Opportunities

Date ______________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. When does a business opportunity exist?
   - a. When an individual comes up with an idea for any new business
   - b. When another business offering the same goods or services closes
   - c. When people want and are willing to pay for a good or service
   - d. When only a few businesses in the community offer the same good or service

2. For what is a business plan used?
   - a. To determine if a business can support a market
   - b. To serve as an operating guide once a business is open
   - c. To measure the past successes of a business
   - d. To help competitors obtain financing for their operations

Complete the following short answer questions.

3. What should an entrepreneur look for when considering business opportunities?

4. Why is establishing goals for a business important?

5. What are the eight elements of a business plan?

   a.

   b.

   c.

   d.

   e.

   f.

   g.

   h.

Steps in Developing a Business Plan

- * RECOGNIZE AN OPPORTUNITY AND DEVELOP A BUSINESS IDEA.
- * IDENTIFY AND EVALUATE COMPETITORS.
- * IDENTIFY THE MARKET FOR THE PROPOSED PRODUCT OR SERVICE.
- * IDENTIFY THE RESOURCES NECESSARY AND CALCULATE THE CAPITAL NEEDED TO OBTAIN THEM.
- * COLLECT INFORMATION ON REGULATIONS, CONTRACTS, LICENSES, AND PERMITS.
- * DEVELOP A MARKETING PLAN.
- * SELECT A BUSINESS LOCATION.
- * PREPARE AN ESTIMATED FINANCIAL PLAN FOR THE BUSINESS.

Lesson 3: Evaluating Business Opportunities

Name ____________________

Business Opportunities

Objective: Recognize business opportunities in the community.

List some of the opportunities for new businesses in your community and the reasons why you think these businesses could be successful.

Business Opportunities	Reasons

Lesson 3: Evaluating Business Opportunities

Name ______________________

Business Plan

Objective: Prepare a business plan for a proposed business.

Using the information on business opportunities compiled in AS 3.1, choose one opportunity and answer the following questions.

1. What is the idea for the business?

2. Who are the competitors? What will the new business do differently?

3. Who will be the customers of the proposed business? What are their interests and income levels? Will price, quality, service, or selection attract the customers? What age groups will customers fall into? Will the business attract men or women (or both)?

4. What types of resources will be needed for the proposed business?

5. What information will be needed on regulations, contracts, permits, and licenses?

6. What do you think will be a good marketing plan for the proposed business?

7. What do you believe would be a good location for the business? Why?

9. What financial information do you need to include in a business plan?

Lesson 4: Preparing an Income Statement

Competency/Objective: Prepare an income statement.

Study Questions

1. **What is an income statement?**
2. **What are the components of an income statement?**
3. **How is an income statement prepared?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IX.
2. Activity Sheet

   AS 4.1: Income Statement

UNIT IX - ENTREPRENEURSHIP

Lesson 4: Preparing an Income Statement

TEACHING PROCEDURES

A. Review

In the last lesson, ways of identifying business opportunities and evaluating them by developing a business plan were examined. Lesson 4 will cover income statements. An income statement is a financial document that contains a summary of a business's income and expenses for a specific period of time. The income statement measures a business's profitability, as well as its ability to repay loans and other debts.

B. Motivation

Compare running a business to participating in a baseball game. If you are playing in a game and you have no idea of the score, then you have no idea if you are winning or losing. If it is your turn to bat, with a man on third and one out, do you swing away or go for the sacrifice fly?

Some of the same principles apply to running a business. If you are running a business and keep good financial records, then you know the "score." When you know the score, you know if you are winning or losing in terms of profit, and you have a better idea what to do if decisions need to be made. Good financial records help the owners of a business know their financial position, which allows them to make decisions about how to increase their "score."

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students what an income statement is.

What is an income statement?

An income statement is a summary of a business's income and expenses for a specific period.

a) Determines if a business, as of a specific date, has made a profit or sustained a loss
b) Measures a business's ability to repay loans and debts
c) Helps secure loans for financing or refinancing a business

2. Have students list the different components of an income statement. Discuss the income, expense, and net income components of an income statement.

What are the components of an income statement?

a) Revenue or income - Income includes cash sales from business activities, money earned from the sale of assets, and interest income.
b) Expenses - Cash expenses include the operating expenses involved in producing a product or service as well as interest paid on loans. Noncash expenses are expenses such as depreciation in which cash is not actually spent by the business.
c) Net income/loss - Net income or net loss is the increase or decrease in capital resulting from profit-making activities.

3. Ask students to describe how an income statement is prepared. Have them complete AS 4.1.

How is an income statement prepared?

a) List cash revenues on the income statement and then total them to calculate the gross revenue. For a retail or wholesale business, calculate the cost of goods sold and subtract it from cash revenues to find gross revenue from sales.
b) List cash expenses and add them to find total cash expenses.
c) Calculate net cash income by subtracting total cash expenses from gross revenue.
d) Enter the amount of depreciation during the period under noncash expenses on the income statement. Calculate net income from operations by subtracting depreciation from net cash income.
e) Net income is equal to net income from operations plus or minus the gain or loss on the sale of capital assets. A business has a capital gain when the income from selling a capital asset is more than its original cost less depreciation, and a capital loss when the income from selling a capital asset is less than its original cost less depreciation.

F. Other Activities

Show the students Schedule F and Schedule C to show how profit and loss are figured for tax purposes for a farm or business. The schedules can be obtained from the IRS web site (http://www.irs.ustreas.gov/prod/cover.html) or from the local library or post office.

G. Conclusion

An income statement is a summary of a business's income and expenses for a specific period of time. It allows a business to figure net income or net loss by finding total revenues, subtracting total cash and noncash expenses, and then adding or subtracting capital gains or losses.

H. Answers to Activity Sheet

AS 4.1

See the facing page for answers.

INCOME STATEMENT

Name: R & S Feedlot

For the period ending: December 31, 19--

REVENUE	
Livestock Sales	$44,000.00
Cost of Goods Sold	($12,263.00)
Gross Revenue	$31,737.00
CASH EXPENSES	
Feed	16,874.00
Veterinary Expense	628.00
Rent and Utilities	774.00
Total Cash Expenses	$18,276.00
Net Cash Income	$13,461.00
NONCASH EXPENSES	
Depreciation	$6,050.00
Net Income from Operations	$7,411.00
Gain or Loss on Capital Assets	($1,200.00)
Net Income	$6,211.00

I. Answers to Evaluation

1. b
2. a
3. c

4. A capital gain is when the income from selling a capital asset is more than its original cost less depreciation.

5. An income statement can be used to determine if a business, as of a specific date, has made a profit or sustained a loss. It measures a business's ability to repay loans and debts. Finally, an income statement is needed by a business to secure loans for financing or refinancing.

6. Cash revenues are listed on the income statement and then totaled to calculate the gross revenue. For a retail or wholesale business, the cost of goods sold is calculated and subtracted from cash revenues to find gross revenue from sales. Cash expenses are listed and added to calculate the total cash expenses. The net cash income is then calculated by subtracting total cash expenses from gross revenue. The amount of depreciation during the period is entered under noncash expenses on the income statement and subtracted from the net cash income to calculate net income from operations. Net income is equal to the net income from operations plus or minus the gain or loss on the sale of capital assets.

Name ______________________________

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What is an income statement?

   a. A financial statement summarizing assets, liabilities, and net worth as of a specific date.
   b. A financial statement summarizing a business's income and expenses for a specific period.
   c. A financial statement summarizing assets, liabilities, and revenue for a specific period of time.
   d. A financial statement summarizing the way cash flows in and out of a business.

2. The components of an income statement include:

   a. Revenue, expenses, and net income/net loss.
   b. Revenue, expenses, and net worth.
   c. Assets, liabilities, and net worth.
   d. Revenue, assets, and net income.

3. Gross revenues minus total cash expenses equals ____________.

   a. Depreciation
   b. Net worth
   c. Net cash income
   d. Gross income

Complete the following short answer questions.

4. What is a capital gain?

5. What are the three ways a business can use a completed financial statement?

   a.

   b.

   c.

432

6. What are the five steps in preparing an income statement?

a.

b.

c.

d.

e.

Lesson 4: Preparing an Income Statement Name ______________________________

Income Statement

Objective: Prepare an income statement.

Using the information below, complete an income statement using the form provided on the back of this sheet.

R & S Feedlot needs to complete an income statement for the period ending on December 31 of this year. During the period, the feedlot sold market cattle for $44,000 and spent $12,263 to purchase livestock for resale. Feed cost the business $16,874, and veterinary expenses were $628. Rent and utility payments were $774. Depreciation was figured at $6,050. The sale of capital assets resulted in a loss of $1,200.

INCOME STATEMENT

Name: ______________________________

Date: ______________________________

REVENUE	
Gross Revenue	
CASH EXPENSES	
Total Cash Expenses	
Net Cash Income	
NONCASH EXPENSES	
Net Income from Operations	
Gain or Loss on Capital Assets	
Net Income	

UNIT IX - ENTREPRENEURSHIP

Lesson 5: Preparing a Balance Sheet

Competency/Objective: Prepare a balance sheet.

Study Questions:

1. **What is a balance sheet?**
2. **What are the components of a balance sheet?**
3. **How is a balance sheet prepared?**
4. **How are solvency and liquidity evaluated?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IX.
2. Transparency Masters
    - a) TM 5.1: Balancing Assets, Liabilities, and Net Worth
    - b) TM 5.2: Balance Sheet
    - c) TM 5.3: Corporate Balance Sheet
3. Activity Sheets
    - a) AS 5.1: Identifying Assets and Liabilities
    - b) AS 5.2: Completing a Balance Sheet

Lesson 5: Preparing a Balance Sheet

TEACHING PROCEDURE

A. Review

In the last lesson, income statements were discussed. An income statement is a summary of a business's income and expenses for a specific period of time. The income statement measures the profitability and financial efficiency of a business, as well as its ability to repay loans and debts. Lesson 5 will discuss balance sheets, which are a part of the financial records kept by a business. A balance sheet is a listing of a business's assets and liabilities that is used as a guide to determine the solvency and liquidity of a business.

B. Motivation

Explain to students that this type of financial statement is called a balance sheet because both sides must balance. Discuss how a balance sheet is used to help businesses secure loans to operate and expand. Explain that if a business has more expenses than assets the business may have trouble paying creditors and securing loans.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students what a balance sheet is.

What is a balance sheet?

A balance sheet is a financial statement showing a business's assets, liabilities, and net worth as of a specific date.

2. Discuss the different components of a balance sheet with the class. Use TM 5.1 and 5.2 as illustrations. Ask students to define the terms *current asset, fixed asset, current liability, long-term liability,* and *net worth.* Have the students list examples of the different types of assets and liabilities and then complete AS 5.1.

What are the components of a balance sheet?

a) The components of a balance sheet include current assets, fixed assets, current liabilities, long-term liabilities, and net worth. They are written down in a two-column format, in which the totals of the two columns must balance.
b) Assets are the tangible and intangible resources and properties owned by a business.
    1) Current assets are assets that can or will be used or sold within one year.
    2) Fixed assets, or noncurrent assets, are assets that are not to be used or sold and converted into cash within one year.
c) Liabilities are all debts owed by a business.
    1) Current liabilities are payable within one year.
    2) Long-term liabilities, or noncurrent liabilities, are not due within one year.
d) Single assets or liabilities may be partially current and partially noncurrent.
e) Net worth (or owner's equity) is the net ownership a sole proprietor, partnership, corporation, or cooperative has in a business; it is equal to the amount of investment in a business by its

owners and any profits that have remained within the business. Net worth is equal to the difference between assets and liabilities.

3. Discuss how information on assets and liabilities is used to complete a balance sheet. Have students prepare the balance sheet on AS 5.2.

   How is a balance sheet prepared?

   a) To prepare a balance sheet, gather information on a business's current assets, fixed assets, current liabilities, and long-term liabilities.
   b) Write a list of current assets and fixed assets in the first column of the balance sheet. Calculate the total value of current assets and the total value of fixed assets. Then add the two together to determine total assets.
   c) Write a list of current liabilities and long-term liabilities in the second column of the balance sheet. Figure the total value of current liabilities and the total of long-term liabilities. Add the two to calculate total liabilities.
   d) Calculate net worth by subtracting total liabilities from total assets.
   e) Add total liabilities and net worth. The sum should be equal to total assets.

4. Ask students to define solvency and liquidity. Discuss the role the balance sheet plays in determining the solvency and liquidity of a business.

   How are solvency and liquidity evaluated?

   a) Solvency refers to the capital structure of a business. A business is considered solvent if the sale of all assets would generate sufficient cash to pay off all liabilities. A simple measure of solvency is whether total assets exceed total liabilities, i.e., net worth is greater than zero.
      1) Net worth/assets ratio - measure of solvency that is a measure of net worth as a percent of the total assets.

$$\textit{Net worth/assets ratio} = \frac{\textit{Net worth}}{\textit{Assets}}$$

      2) Net worth/total debt ratio - method of determining solvency by looking at the total liabilities and net worth of the business

$$\textit{Net worth/total debt} = \frac{\textit{Net worth}}{\textit{Total debt}}$$

   b) Liquidity involves a business's capacity to generate cash to meet anticipated and unanticipated cash demands as they occur, without disruption of operations or a loss of value. A simple measure of liquidity is whether current assets are greater than current liabilities.
      1) Current ratio or working capital ratio - measure of liquidity in which current assets are divided by current liabilities to give a ratio of current assets per dollar of current liabilities

$$\textit{Current ratio} = \frac{\textit{Current assets}}{\textit{Current liabilities}}$$

      2) Quick ratio or "acid test" ratio - measure of liquidity similar to the current ratio but does not include the value of inventory

$$\textit{Quick ratio} = \frac{\textit{Current monetary assets}}{\textit{Current liabilities}}$$

F. Other Activities

1. Have a representative from a local financial institution or business visit the class and discuss how a balance sheet is used in securing a loan.

2. Obtain an annual report for a company from the Internet. Discuss the information on the balance sheet.

3. Obtain balance sheets for different companies from the Internet and discuss the differences between them.

G. Conclusion

A balance sheet is a summary of assets, liabilities, and net worth of a business at a specific point in time. It is useful in making business decisions since it indicates the business's current financial position; a balance sheet can also be used to measure the solvency and liquidity of a business.

H. Answers to Activity Sheets

AS 5.1

Item	Type of Asset or Liability
Trailer	FA
Checking account	CA
60 feeder pigs (averaging 180 lbs. each)	CA
24 cows (used for breeding)	FA
Loan for truck (due in three years)	LL
Interest due this year on loan for truck	CL
Vet bill	CL
Bull (used for breeding)	FA
50 tons of hay ($90.00 per ton)	CA
Four hog feeders	FA
Loan for baler (due in three years)	LL
Interest due this year on loan for baler	CL
Accounts receivable (sold hay to H. Smith)	CA
Four heated water units	FA
Two cattle feeders	FA
Loan for bull (due in two years)	LL
Interest due this year on loan for bull	CL
80 acres of pasture	FA
Loan for hay trailer (due in two years)	LL
Interest due this year on loan for hay trailer	CL

Item	Type of Asset or Liability
Truck used for farm	FA
Accounts payable (feed bill from Farm Supply)	CL
Tractor	FA
Hay baler	FA
Land loan (balloon payment due in two years)	LL
Interest due this year on loan for land	CL
Hay trailer	FA
Feed minerals, vitamins, and supplements	CA
Tractor loan (due in five years)	LL
Interest due this year on loan for tractor	CL
Savings account	CA
Rent due on pasture	CL
Short-term bond	CA

AS 5.2

See the following page for the completed balance sheet.

1. Yes. A business is solvent if total assets exceed total liabilities. The total value of Kim's assets is $170,352, which is greater than her total liabilities of $46,480.

2. .38

3. Yes. A simple measure of liquidity is that current assets exceed current liabilities. Kim's current assets total $18,382, which is greater than the total of her current liabilities of $11,472.

4. 1.60

BALANCE SHEET

Name: Kim Dylan

Date: April 30, 19--

Current Assets		**Current Liabilities**	
Checking account	660.00	Accounts payable	690.00
Feeder pigs	4,410.00	Vet bill	300.00
Hay	4,500.00	Rent	1,600.00
Accounts receivable	5,000.00	Interest (truck)	860.00
Feed minerals, vitamins, and supplements	312.00	Interest (baler)	1,080.00
		Interest (bull)	162.00
Savings account	2,640.00	Interest (hay trailer)	560.00
Short-term bond	860.00	Interest (land)	5,100.00
		Interest (tractor)	1,120.00
Total Current Assets	$18,382.00	Total Current Liabilities	$11,472.00
Fixed Assets		**Long-Term Liabilities**	
Trailer	800.00	Truck loan	9,600.00
Cows	21,600.00	Baler loan	12,000.00
Bull	3,600.00	Bull loan	1,800.00
Hog feeders	460.00	Hay trailer loan	7,000.00
Heated water units	310.00	Land loan	68,000.00
Cattle feeders	200.00	Tractor loan	14,000.00
Pasture land	80,000.00		
Truck	9,100.00		
Tractor	16,000.00		
Hay baler	12,000.00		
Hay trailer	7,900.00		
Total Fixed Assets	$151,970.00	Total Long-Term Liabilities	$112,400.00
		Total Liabilities	$123,872.00
		Net Worth	$46,480.00
Total Assets	$170,352.00	Total Liabilities & Net Worth	$170,352.00

I. Answers to Evaluation

1. c
2. b
3. b
4. d
5. a
6. c

7. A balance sheet is a financial statement showing the assets, liabilities, and net worth of a business as of a specific date.

8. Students should list the following steps.

   - Gather information on the business's current assets, fixed assets, current liabilities, and long-term liabilities.
   - Write a list of current assets and fixed assets in the first column of the balance sheet. Calculate the total value of current assets and the total value of fixed assets. Then add the two together to determine total assets.
   - Write a list of current liabilities and long-term liabilities in the second column of the balance sheet. Figure the total current liabilities and the total long-term liabilities. Add the two figures to calculate total liabilities.
   - Calculate net worth by subtracting the total liabilities from the total assets.
   - Add the total liabilities and net worth. The totals in the two columns should balance, or equal, each other.

9. 1.32
10. .81

442

Name______________________________

Lesson 5: Preparing a Balance Sheet

Date______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What are assets?

   a. The net ownership that the owner has in the business
   b. The debts owed by a business
   c. The resources and properties owned by a business
   d. The interest paid by a business

2. What are liabilities?

   a. The net ownership that the owner has in the business
   b. The debts owed by a business
   c. The resources and properties of a business
   d. The interest paid by a business

3. Assets - Liabilities = ______________________ ?

   a. Income
   b. Net worth
   c. Expenses
   d. Solvency

4. A business is considered solvent if:

   a. Current assets are greater than current liabilities.
   b. Current assets are less than current liabilities.
   c. Total assets are less than total liabilities.
   d. Total assets are greater than total liabilities.

5. A business is considered liquid if:

   a. Current assets are greater than current liabilities.
   b. Current assets are less than current liabilities.
   c. Total assets are less than total liabilities.
   d. Total assets are greater than total liabilities.

6. Which of the following is a measure of liquidity that involves looking at current assets and current liabilities?

   a. Net worth/assets ratio
   b. Net worth/total debt ratio
   c. Current ratio
   d. Quick ratio

Complete the following short answer questions.

7. What is a balance sheet?

8. What are the steps in completing a balance sheet?

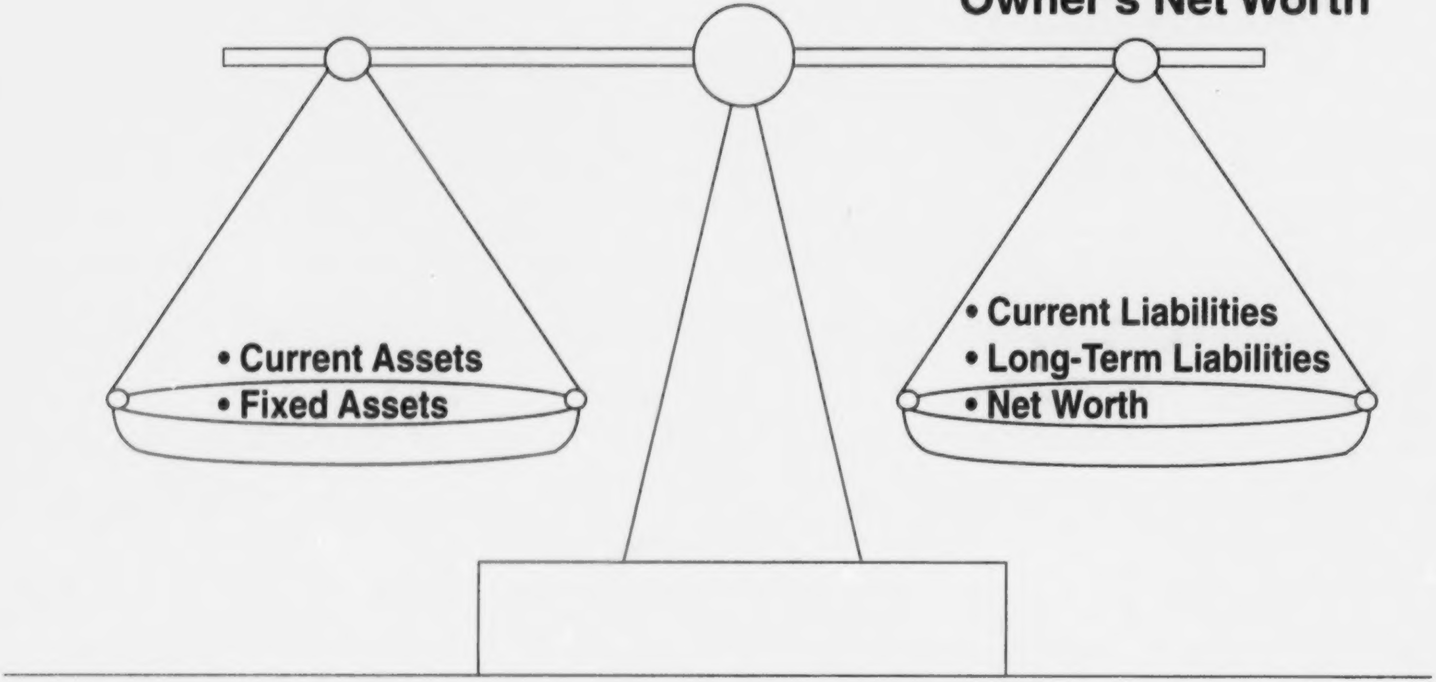
Using the information below, answer the following questions. Round your answers to the nearest hundredth.

A business has total assets worth $78,000 and current assets worth $26,000. Its inventory is worth $11,500. The total debt for the business is $37,000, and the current liabilities of the business are $18,000.

9. What is the net worth/total debt ratio for the business?

10. What is the "acid test" ratio?

Balancing Assets, Liabilities, and Net Worth



Total Assets

- Current Assets
- Fixed Assets

Total Liabilities and Owner's Net Worth

- Current Liabilities
- Long-Term Liabilities
- Net Worth

TM 5.1

Balance Sheet

Current Assets		Current Liabilities	
Total Current Assets		Total Current Liabilities	
Fixed Assets		Long-Term Liabilities	
Total Fixed Assets		Total Long-Term Liabilities	
		Total Liabilities	
		Net Worth	
Total Assets		Total Liabilities & Net Worth	

TM 5.3

Corporate Balance Sheet

ANYLARGE CORPORATION

CONSOLIDATED BALANCE SHEETS

DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE DATA

	May 28, 1997	May 29, 1996
Assets		
Current assets		
Cash and short-term investments	$1,321,231	$861,809
Receivables, less allowances ($74,857 1997, $82,934 1996)	470,437	391,342
Inventories	23,025	32,221
Prepaid expenses	50,576	69,324
Deferred income taxes	59,913	98,435
Total current assets	1,925,182	1,453,131
Fixed Assets		
Property, plant, and equipment, net	390,452	394,682
Other assets	101,196	115,668
Total assets	$2,416,830	$1,963,481
Current Liabilities		
Accounts payable	$116,305	$67,176
Accrued compensation	97,637	81,639
Accrued marketing liabilities	72,339	66,800
Other accrued marketing liabilities	90,623	121,165
Income taxes payable	29,942	78,139
Deferred revenue	54,099	47,801
Total current liabilities	460,945	462,720
Minority interests	17,623	13,774
Shareholders' Equity		
Common stock, par value $.10 per share		
Authorized-600,000,000 shares		
Issued-		
371,567,158 shares, 1997		
364,354,887 shares, 1996	37,157	36,436
Additional paid-in capital	737,481	645,419
Retained earnings	1,163,624	805,132
Total shareholders' equity	1,938,262	1,486,987
Total liabilities and shareholders' equity	2,416,830	$1,963,481

Lesson 5: Preparing a Balance Sheet

Name________________________________

Identifying Assets and Liabilities

Objective: Distinguish between current and fixed assets and between current and long-term liabilities.

Kim Dylan has a livestock and crop production business. Below is a list of Kim's assets and liabilities as of April 30 of this year. Identify whether the assets and liabilities are current or noncurrent by writing CA for current assets, FA for fixed assets, CL for current liabilities, and LL for long-term liabilities.

Item	Value	Type of Asset or Liability
Trailer	$800.00	________
Checking account	$660.00	________
60 feeder pigs (averaging 180 lbs. each)	$4,410.00	________
24 cows (used for breeding)	$21,600.00	________
Loan for truck (due in three years)	$9,600.00	________
Interest due this year on loan for truck	$860.00	________
Vet bill	$300.00	________
Bull (used for breeding)	$3,600.00	________
50 tons of hay ($90.00 per ton)	$4,500.00	________
Four hog feeders	$460.00	________
Loan for baler (due in three years)	$12,000.00	________
Interest due this year on loan for baler	$1,080.00	________
Accounts receivable (sold hay to H. Smith)	$5,000.00	________
Four heated water units	$310.00	________
Two cattle feeders	$200.00	________
Loan for bull (due in two years)	$1,800.00	________
Interest due this year on loan for bull	$162.00	________
80 acres of pasture	$80,000.00	________
Loan on hay trailer (due in two years)	$7,000.00	________
Interest due this year on loan for hay trailer	$560.00	________
Truck used for farm	$9,100.00	________
Accounts payable (feed bill from Farm Supply)	$690.00	________

Item	Value	Type of Asset or Liability
Tractor	$16,000.00	________
Hay baler	$12,000.00	________
Land loan (balloon payment due in two years)	$68,000.00	________
Interest due this year on loan for land	$5,100.00	________
Hay trailer	$7,900.00	________
Feed minerals, vitamins, and supplements	$312.00	________
Tractor loan (due in five years)	$14,000.00	________
Interest due this year on loan for tractor	$1,120.00	________
Savings account	$2,640.00	________
Rent due on pasture	$1,600.00	________
Short-term bond	$860.00	________

Name________________________________

Completing a Balance Sheet

Objective: Prepare a balance sheet for a business.

Using the list of assets and liabilities from AS 5.1, complete the balance sheet for Kim Dylan's livestock and crop production business. Then answer the questions below.

1. Would Kim's business be considered solvent? Why or why not?

2. What is the net worth/total debt ratio?

3. Would the business be considered liquid? Why or why not?

4. What is the current ratio?

BALANCE SHEET

Name: ____________________

Date: ____________________

Current Assets		Current Liabilities	
Total Current Assets		Total Current Liabilities	
Fixed Assets		Long-Term Liabilities	
Total Fixed Assets		Total Long-Term Liabilities	
		Total Liabilities	
		Net Worth	
Total Assets		Total Liabilities & Net Worth	

Lesson 6: Summarizing Business Cash Flow

Competency/Objective: Summarize cash flow and project a statement of cash flows.

Study Questions

1. **Why is cash flow projected?**
2. **How is cash flow projected and summarized?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IX.
2. Activity Sheets
   a) AS 6.1: Identifying Income and Expenses
   b) AS 6.2: Preparing a Cash Flow Statement
   c) AS 6.3: Identifying Cash Flow Activities
   d) AS 6.4: Preparing Statement of Cash Flows

Lesson 6: Summarizing Business Cash Flow

TEACHING PROCEDURES

A. Review

In Lesson 5, balance sheets were discussed. A balance sheet is a statement of a business's assets, liabilities, and net worth as of a specific date. It can be used to determine the solvency or liquidity of a business. This lesson discusses the importance of monitoring cash flow. The cash flow statement and statement of cash flows are two of the records that allow the entrepreneur to analyze the performance of a business, make decisions affecting it, and assess the effectiveness of those decisions.

B. Motivation

Ask students how many of them have ever experienced a cash flow problem, with more money being paid out than was coming in. If money was not available, some of them may have had to ask for advances on their allowances or borrow the money from other sources. Draw a parallel to operating a business by telling them that businesses may have similar problems, so it is important for owners to know when money will be received and bills paid. If the timing of these two activities matches, a business will not have to borrow money and, thus, will not have to pay interest.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students to define cash flow. Discuss with the students why it is important to project cash flow.

   Why is cash flow projected?

   a) Cash flow statements show the liquidity of a business.
   b) Statements help a business establish and maintain a line of credit.
   c) Statements can be used to evaluate past financial practices and inform current decisions.

2. Discuss preparing cash flow statements, using AS 6.1, 6.2, 6.3, and 6.4.

   How is cash flow projected and summarized?

   a) Cash flow statement - summarizes either projected business payments and receipts or past cash flows for a business
      1) Break down transactions into income or expenses.
      2) Break down transactions into quarterly values.
      3) Enter the amounts of the transactions on the cash flow statement.
      4) Add receipts to the beginning cash balance to find the total cash available.
      5) Subtract expenses to find the cash position before savings and borrowing.
      6) Add any money borrowed to find the ending cash balance.
      7) Repeat this process for each quarter and for the "Total" column.
   b) Statement of cash flows - shows in what areas cash inflows and outflows occur in a business
      1) Arrange information on total income and expenses for the year into operating, investing, and financing activities.
         (a) Operating activities - cash flow from the production and sale of goods and services and the use of consumable supplies and labor in production

  - (b) Investing activities - cash flow from the purchase or sale of capital assets
  - (c) Financing activities - cash flow from financial activities such as taking out or paying loans and payments on stock dividends

2) Enter the total amounts for these activities for the period on the statement.
3) Total the cash inflows and outflows for the activities to find the net increase or decrease in cash for the period
4) Add the beginning cash balance for the year to find the cash available at the end of the year.

F. Other Activities

Ask a representative from a local bank or financial institution to visit the class and talk about cash flow statements. Have the representative discuss how cash flow statements are used to determine eligibility for short- and long-term loans. Discuss what information financial institutions consider in a business's cash flow.

G. Conclusion

Cash flow is the way money flows into and out of a business. A cash flow statement summarizes the projected payments by and receipts for a business. Information from the cash flow statement is transferred to the statement of cash flows and summarized by activity to show exactly where cash inflows and outflows occur. Cash flow statements can be used to help a business determine its liquidity, gain and maintain a line of credit, and evaluate past financial practices to inform current decisions.

H. Answers to Activity Sheets

AS 6.1

MONTH	TRANSACTION	VALUE	INCOME (I) OR EXPENSE (E)
Jan	Principal payment (bull)	$900	E
Jan	Interest payment (bull)	$81	E
Jan	Utility payment (4th quarter)	$141	E
Jan	Purchased feed (hogs)	$250	E
Feb	Purchased feed (hogs)	$350	E
Feb	Purchased feed (cattle)	$320	E
Mar	Sold market hogs	$3,240	I
Mar	Principal payment (land)	$1,700	E
Mar	Interest payment (land)	$2,550	E
Mar	Rent payment (pasture)	$800	E
Mar	Property tax payment	$950	E
Apr	Sold market hogs	$216	I
Apr	Utility payment (1st quarter)	$125	E
Apr	Purchased supplies for production	$525	E
May	Purchased hay baler	$6,000	E
May	New loan for baler	$6,000	I
May	Purchased fuel for tractor	$450	E
June	Breeding service	$125	E
June	Insurance payment	$340	E
July	Sold hay	$3,920	I
July	Pregnancy test (cows)	$250	E
July	Utility payment (2nd quarter)	$80	E
July	Purchased feeder hogs	$1,260	E
July	Purchased feed (calves)	$450	E
July	Repairs on tractor	$425	E

Aug	Sold hay	$5,220	I
Aug	Principal payment (hay trailer)	$1,250	E
Aug	Interest payment (hay trailer)	$280	E
Aug	Principal payment (tractor)	$1,750	E
Aug	Interest payment (tractor)	$560	E
Aug	Purchased feed (hogs)	$400	E
Sept	Purchased feed (hogs)	$550	E
Sept	Purchased feed (cows)	$300	E
Sept	Purchased feed (calves)	$600	E
Sept	Purchased fuel for tractor	$300	E
Oct	Principal payment (truck)	$1,600	E
Oct	Interest payment (truck)	$430	E
Oct	Utility payment (3rd quarter)	$80	E
Oct	Veterinary bill (calves)	$70	E
Oct	Purchased feed (hogs)	$600	E
Nov	Sold breeding stock	$5,600	I
Nov	Principal payment (hay baler)	$2,000	E
Nov	Interest payment (hay baler)	$540	E
Nov	Purchased feed (hogs)	$750	E
Dec	Sold hay	$2,800	I
Dec	Purchased feed (hogs)	$825	E

AS 6.2

CASH FLOW STATEMENT

Name Smith Production For the period Dec. - Jan. 19--

	TOTAL	QUARTER 1 (JAN-MAR)	QUARTER 2 (APR-JUNE)	QUARTER 3 (JULY-SEPT)	QUARTER 4 (OCT-DEC)
BEGINNING CASH BALANCE	$300	$300	($4,472)	($5,821)	($5,136)
Receipts					
Hay crop	$11,940			$9,140	$2,800
Market livestock	$456	$3,240	$216		
Breeding stock	$5,600				$5,600
TOTAL CASH AVAILABLE	$21,326	$3,570	($4,256)	$3,319	$3,264
Expenses					
Feed	$5,395	$920		$2,300	$2,175
Market Livestock	1,260			1,260	
Rent	800	800			
Utilities	486	141	125	80	140
Supplies	525		525		
Taxes	950	950			
Machinery	6,000		6,000		
Insurance	340		340		
Veterinary bill	70				70
Pregnancy test	250			250	
Breeding service	125		125		
Fuel	750		450	300	
Tractor repair	425			425	
Principal payments	9,200	2,600		3,000	3,600
Interest expense	4,441	2,631		840	970
TOTAL CASH REQUIRED	$31,467	$8,042	$7,565	$8,455	$6,955
CASH POSITION BEFORE SAVINGS & BORROWING		($4,472)	($11,821)	($5,136)	($3,691)
Money borrowed	$6,000		$6,000		
ENDING CASH BALANCE	($3,691)	($4,472)	($5,821)	($5,136)	($3,691)

AS 6.3

MONTH	TRANSACTION	VALUE	OPERATING (O) INVESTING (I) FINANCING (F)
Jan	Principal payment (bull)	$900	F
Jan	Interest payment (bull)	$81	O
Jan	Utility payment (4th quarter)	$141	O
Jan	Purchased feed (hogs)	$250	O
Feb	Purchased feed (hogs)	$350	O
Feb	Purchased feed (cattle)	$320	O
March	Sold market hogs	$3,240	O
March	Principal payment (land)	$1,700	F
March	Interest payment (land)	$2,550	O
March	Rent payment (pasture)	$800	O
March	Property tax payment	$950	O
April	Sold hogs	$216	O
April	Utility payment (1st quarter)	$125	O
April	Purchased supplies for production	$525	O
May	Purchased hay baler	$6,000	I
May	New loan for baler	$6,000	F
May	Purchased fuel for tractor	$450	O
June	Breeding service	$125	O
June	Insurance payment	$340	O
July	Sold hay	$3,920	O
July	Pregnancy test (cows)	$250	O
July	Utility payment (2nd quarter)	$80	O
July	Purchased feeder hogs	$1,260	O
July	Purchased feed (calves)	$450	O
July	Repairs on tractor	$425	O
Aug	Sold hay	$5,220	O
Aug	Principal payment (hay trailer)	$1,250	F
Aug	Interest payment (hay trailer)	$280	O
Aug	Principal payment (tractor)	$1,750	F
Aug	Interest payment (tractor)	$560	O
Aug	Purchased feed (hogs)	$400	O
Sept	Purchased feed (hogs)	$550	O
Sept	Purchased feed (cows)	$300	O
Sept	Purchased feed (calves)	$600	O
Sept	Purchased fuel for tractor	$300	O
Oct	Principal payment (truck)	$1,600	F
Oct	Interest payment (truck)	$430	O
Oct	Utility payment (3rd quarter)	$140	O
Oct	Veterinary bill (calves)	$70	O
Oct	Purchased feed (hogs)	$600	O
Nov	Sold breeding stock	$5,600	I
Nov	Principal payment (hay baler)	$2,000	F
Nov	Interest payment (hay baler)	$540	O
Nov	Purchased feed (hogs)	$750	O
Dec	Sold hay	$2,800	O
Dec	Purchased feed (hogs)	$825	O

AS 6.4

CASH FLOW FROM OPERATING ACTIVITIES:

Cash received from operations

Sold hogs		$3,240
Sold hogs		$216
Sold hay		$3,920
Sold hay		$5,220
Sold hay		$2,800
	TOTAL	$15,396

Cash paid for accounts payable (feeder livestock and feed purchased)

Purchased feed (hogs)		$250
Purchased feed (hogs)		$350
Purchased feed (cows)		$320
Purchased feeder hogs		$1,260
Purchased feed (calves)		$450
Purchased feed (hogs)		$400
Purchased feed (hogs)		$550
Purchased feed (cows)		$300
Purchased feed (calves)		$600
Purchased feed (hogs)		$600
Purchased feed (hogs)		$750
Purchased feed (hogs)		$825
	TOTAL	$6,655

Cash paid for operating expenses

Utility payment (4th quarter)	$141
Rent payment	$800
Property tax payment	$950
Utility payment (1st quarter)	$125
Purchased supplies for production	$525
Purchased fuel for tractor	$450
Breeding service	$125

Insurance payment		$340
Pregnancy test (cows)		$250
Repairs on tractor		$425
Utility payment (2nd quarter)		$80
Purchased fuel for tractor		$300
Veterinarian bill (calves)		$70
Utility payment (3rd quarter)		$140
	TOTAL	$4,721

Cash paid for interest

Interest payment (bull)		$81
Interest payment (land)		$2,550
Interest payment (trailer)		$280
Interest payment (tractor)		$560
Interest payment (truck)		$430
Interest payment (baler)		$540
	TOTAL	$4,441

CASH FLOW FROM INVESTING ACTIVITIES

Cash received from sale of breeding stock

Sold breeding stock	$5,600

Cash paid to purchase machinery and equipment

Purchased hay baler	$6,000

CASH FLOW FROM FINANCING ACTIVITIES

Cash paid in loan principal

Principal payment (bull)		$900
Principal payment (land)		$1,700
Principal payment (trailer)		$1,250
Principal payment (tractor)		$1,750
Principal payment (truck)		$1,600
Principal payment (baler)		$2,000
	TOTAL	$9,200

Income received from loans

New loan for baler	$6,000

STATEMENT OF CASH FLOWS

Name Smith Production For the period ending December 31, 19--

CASH FLOWS--OPERATING ACTIVITIES	
Cash received from operations	$15,396
Cash paid for accounts payable	(6,655)
Cash paid for operating expenses	(4,721)
Cash paid for interest	(4,441)
NET CASH FLOW FROM OPERATIONS	$ (421)
CASH FLOWS--INVESTMENT ACTIVITIES	
Cash received from sale of breeding stock	$5,600
Cash paid to purchase machinery and equipment	(6,000)
NET CASH FLOW FROM INVESTMENTS	$ (400)
CASH FLOWS--FINANCING ACTIVITIES	
Cash paid in loan principal	$(9,200)
Income received from loans	6,000
NET CASH FROM FINANCING ACTIVITIES	$ (3,200)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	$ (4,021)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	$ 330
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ (3,691)

I. Answers to Evaluation

1. d
2. a
3. b
4. d
5. b

6. Cash flow statements show the liquidity of a business, help a business get and maintain a line of credit, and can be used to evaluate past financial practices and inform current decisions.

Name ____________________

Lesson 6: Summarizing Business Cash Flow

Date ____________________

Evaluation

Circle the letter that corresponds to the best answer.

1. Which of the following is a financing activity?

    a. Paying rent
    b. Purchasing machinery for production
    c. Selling goods produced
    d. Receiving dividends

2. A cash flow statement:

    a. Summarizes either past or projected cash flows by business payments by quarters.
    b. Shows transactions broken down into operating, investing, and financing activities.
    c. Summarizes the cash value of capital assets owned by a business.
    d. Shows only the payments made by a business for a specific period.

3. A statement of cash flows:

    a. Summarizes either past or projected cash flows by business payments by quarters.
    b. Shows transactions broken down into operating, investment, and financing activities.
    c. Summarizes the cash value of capital assets owned by a business.
    d. Shows only the payments made by a business for a specific period.

4. Purchasing machinery for production is a(n) ________________ activity.

    a. Financing
    b. Operating
    c. Capital asset
    d. Investment

5. Which of the following is not a source of cash flow?

    a. Purchasing inputs for production
    b. Owning capital assets
    c. Selling stock in your business
    d. Taking out a loan

Complete the following short answer question.

6. What are three reasons cash flow might be projected?

    a.

    b.

    c.

Lesson 6: Summarizing Business Cash Flow Name ____________________

Identifying Income and Expenses

Objective: Categorize cash inflows and outflows.

Sandy started an agricultural feeder pig production business, Smith Production, while she was in high school and has expanded the operation since she graduated. Last year she invested money in a beef breeding herd and is renting ground and raising hay for feed and to sell to other producers. She is interested in finding out how these major investments have affected the cash flow of her business.

Categorize the following transactions as income or expenses by writing I or E in the final column.

MONTH	TRANSACTION	VALUE	INCOME (I) OR EXPENSE (E)
Jan	Principal payment (bull)	$900	______
Jan	Interest payment (bull)	$81	______
Jan	Utility payment (4th quarter)	$141	______
Jan	Purchased feed (hogs)	$250	______
Feb	Purchased feed (hogs)	$350	______
Feb	Purchased feed (cattle)	$320	______
Mar	Sold market hogs	$3,240	______
Mar	Principal payment (land)	$1,700	______
Mar	Interest payment (land)	$2,550	______
Mar	Rent payment (pasture)	$800	______
Mar	Property tax payment	$950	______
Apr	Sold market hogs	$216	______
Apr	Utility payment (1st quarter)	$125	______
Apr	Purchased supplies for production	$525	______
May	Purchased hay baler	$6,000	______
May	New loan for baler	$6,000	______
May	Purchased fuel for tractor	$450	______
June	Breeding service	$125	______
June	Insurance payment	$340	______
July	Sold hay	$3,920	______
July	Pregnancy test (cows)	$250	______
July	Utility payment (2nd quarter)	$80	______
July	Purchased feeder hogs	$1,260	______
July	Purchased feed (calves)	$450	______
July	Repairs on tractor	$425	______
Aug	Sold hay	$5,220	______
Aug	Principal payment (hay trailer)	$1,250	______
Aug	Interest payment (hay trailer)	$280	______
Aug	Principal payment (tractor)	$1,750	______
Aug	Interest payment (tractor)	$560	______
Aug	Purchased feed (hogs)	$400	______
Sept	Purchased feed (hogs)	$550	______
Sept	Purchased feed (cows)	$300	______
Sept	Purchased feed (calves)	$600	______
Sept	Purchased fuel for tractor	$300	______
Oct	Principal payment (truck)	$1,600	______
Oct	Interest payment (truck)	$430	______

Oct	Utility payment (3rd quarter)	$140	________
Oct	Veterinarian bill (calves)	$70	________
Oct	Purchased feed (hogs)	$600	________
Nov	Sold breeding stock	$5,600	________
Nov	Principal payment (hay baler)	$2,000	________
Nov	Interest payment (hay baler)	$540	________
Nov	Purchased feed (hogs)	$750	________
Dec	Sold hay	$2,800	________
Dec	Purchased feed (hogs)	$825	________

Lesson 6: Summarizing Business Cash Flow Name______________________________

Preparing a Cash Flow Statement

Objective: Prepare a cash flow statement.

With the information from AS 6.1, prepare a cash flow statement for the current year for Sandy's business, Smith Production. The beginning cash balance was $330.00.

CASH FLOW STATEMENT

Name ______________________________ For the period ______________

	TOTAL	QUARTER 1 (JAN-MAR)	QUARTER 2 (APR-JUNE)	QUARTER 3 (JULY-SEPT)	QUARTER 4 (OCT-DEC)
BEGINNING CASH BALANCE					
TOTAL CASH AVAILABLE					
TOTAL CASH REQUIRED					
CASH POSITION BEFORE SAVINGS & BORROWING					
ENDING CASH BALANCE					

Lesson 6: Summarizing Business Cash Flow Name ______________________

Identifying Cash Flow Activities

Objective: Differentiate between operating, investing, and financing activities of a business.

Classify each of the transactions from Sandy's business as operating, investing, or financing activities.

MONTH	TRANSACTION	VALUE	OPERATING (O), INVESTING (I), FINANCING (F)
Jan	Principal payment (bull)	$900	________
Jan	Interest payment (bull)	$81	________
Jan	Utility payment (4th quarter)	$141	________
Jan	Purchased feed (hogs)	$250	________
Feb	Purchased feed (hogs)	$350	________
Feb	Purchased feed (cattle)	$320	________
Mar	Sold market hogs	$3,240	________
Mar	Principal payment (land)	$1,700	________
Mar	Interest payment (land)	$2,550	________
Mar	Rent payment (pasture)	$800	________
Mar	Property tax payment	$950	________
Apr	Sold hogs	$216	________
Apr	Utility payment (1st quarter)	$125	________
Apr	Purchased supplies for production	$525	________
May	Purchased hay baler	$6,000	________
May	New loan for baler	$6,000	________
May	Purchased fuel for tractor	$450	________
June	Breeding service	$125	________
June	Insurance payment	$340	________
July	Sold hay	$3,920	________
July	Pregnancy test (cows)	$250	________
July	Utility payment (2nd quarter)	$80	________
July	Purchased feeder hogs	$1,260	________
July	Purchased feed (calves)	$450	________
July	Repairs on tractor	$425	________
Aug	Sold hay	$5,220	________
Aug	Principal payment (hay trailer)	$1,250	________
Aug	Interest payment (hay trailer)	$280	________
Aug	Principal payment (tractor)	$1,750	________
Aug	Interest payment (tractor)	$560	________
Aug	Purchased feed (hogs)	$400	________
Sept	Purchased feed (hogs)	$550	________
Sept	Purchased feed (cows)	$300	________
Sept	Purchased feed (calves)	$600	________
Sept	Purchased fuel for tractor	$300	________
Oct	Principal payment (truck)	$1,600	________
Oct	Interest payment (truck)	$430	________
Oct	Utility payment (3rd quarter)	$140	________
Oct	Veterinary bill (calves)	$70	________
Oct	Purchased feed (hogs)	$600	________
Nov	Sold breeding stock	$5,600	________

Nov	Paid principal (hay baler)	$2,000	________
Nov	Paid interest (hay baler)	$540	________
Nov	Purchased feed (hogs)	$750	________
Dec	Sold hay	$2,800	________
Dec	Purchased feed (hogs)	$825	________

Lesson 6: Summarizing Business Cash Flow Name ____________________________

Preparing a Statement of Cash Flows

Objective: Prepare a statement of cash flows.

With the information from AS 6.3, classify the transactions by type and find the total for each type. Using the form provided, complete the statement of cash flows for Smith Production for the period ending December 31 of the current year. The beginning cash balance was $330.00.

CASH FLOW FROM OPERATING ACTIVITIES:

Cash received from operation Amount

TOTAL $_______

Cash paid for accounts payable (feeder livestock and feed purchased)

TOTAL $_______

Cash paid for operating expenses	Amount
TOTAL	$______

Cash paid for interest

TOTAL $______

CASH FLOW FROM INVESTING ACTIVITIES: Amount

Cash received from sale of breeding stock

TOTAL $______

Cash paid to purchase machinery and equipment

TOTAL $______

CASH FLOW FROM FINANCING ACTIVITIES:

Cash paid on loan principal

TOTAL $______

Income received from loans

TOTAL $______

STATEMENT OF CASH FLOWS

Name ______________________ For the period ending ______________________

CASH FLOWS--OPERATING ACTIVITIES	
	$
NET CASH FLOW FROM OPERATIONS	$
CASH FLOWS--INVESTMENT ACTIVITIES	
	$
NET CASH FLOW FROM INVESTMENTS	$
CASH FLOWS--FINANCING ACTIVITIES	
	$
NET CASH FROM FINANCING ACTIVITIES	$
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	$
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	$
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$

Lesson 7: Obtaining Business Financing

Competency/Objective: Describe how to obtain financing for a business.

Study Questions

1. **What is business financing?**
2. **What are the sources of business financing?**
3. **What type of information must a business provide to secure a business loan?**
4. **How do lenders determine credit worthiness?**
5. **What is a franchise?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1997, Unit IX.

Lesson 7: Obtaining Business Financing

TEACHING PROCEDURES

A. Review

Lesson 6 covered cash flow statements, financial statements used to track the flow of money into and out of a business through receipts and payments. Like the balance sheet and the income statement, the cash flow statement is used to obtain money needed for business purposes. This lesson will discuss business financing, including the different sources of financing and the type of information a business must provide to obtain financing.

B. Motivation

Ask students if any of them have ever loaned money. Ask them whether they wondered how and when they would be repaid. Explain that financial institutions make loans using the money of depositors and so are accountable to them. Financial institutions want to be certain that loans will be repaid before lending money and that businesses have the assets to cover their loans.

C. Assignment

D. Supervised Study

E. Discussion

1. Ask students what it means to finance a business. Discuss how business financing can be obtained.

What is business financing?

a) Obtaining financing to start or expand a business involves getting a loan from another person or institution and paying back the money plus interest at a later date.
    1) Good financial management includes borrowing only the appropriate amount of money needed and getting the best interest rate possible.
    2) It also involves shopping around for the best rate of interest.

b) Young entrepreneurs who want to start businesses that require large inventories or large capital investments may have trouble finding institutions or individuals willing to loan them the money, and they may have to start small. However, once financial institutions can confirm a history of good business management, they are more likely to lend a business money.

c) Even if financing is not required to start a business, establishing a line of credit is important when running a business; a good credit history will make it possible to obtain financing if it is needed.

2. Have the students list the sources of business financing. Ask them to describe the activities carried out by each one.

What are the sources of business financing?

1) Commercial banks - generally offer short- and long-term loans and a payment schedule that requires a single payment or periodic payments of interest and principle; loan money for real estate, inventory, or capital assets

2) Savings and loans - primarily set up for long-term use for real estate; mostly lend money for housing, but also make loans for business real estate
3) Insurance companies - allow individuals to borrow against the cash surrender value of their life insurance policy to make purchases; make short- and long-term loans
4) Small Business Administration (SBA) - government agency that primarily guarantees a certain percentage of short- and long-term loans made by private lenders to entrepreneurs and small businesses meeting certain qualifications
5) Farm credit agencies - provide short- and long-term loans for land, assets, and operating funds for production or service agribusinesses
6) Manufacturers and retailers - provide short- and long-term credit; may offer credit terms to a business, give a discount on merchandise being purchased if the money is paid in a designated period of time, or sell merchandise on consignment, in which case it does not have to be paid for by the business until it is sold
7) Farm Services Agency/Agricultural Stabilization and Conservation Service - government agency that handles government and government-guaranteed farm loans made to persons with experience in agricultural production who will be the owners or operators of an agricultural production facility when the loan is closed; makes loans for farm ownership, soil and water conservation improvements, operating expenses, and emergency purposes
8) Venture capital - money that can be invested in the ownership of a business; may involve selling stock on the open market to investors or taking on partners
9) Personal sources of financing - capital from loans on life insurance policies, personal trusts, savings plans that were established with a present employer, or family members or friends

3. Ask the students to describe the information that a business will have to provide to financial institutions to secure a business loan. Discuss how the information is similar to the information needed to secure a personal loan. Have students orally present the business plans they devised using AS 7.1.

What type of information must a business provide to secure a business loan?

a) Individual's or business's credit history
b) Information on assets to be used for collateral
c) Information on cash flow, to determine whether the business can make interest and principal payments on the loan
d) History of established businesses, including income and expenses
e) History of the individual or individuals starting a business, including experience and training
f) Business idea/business plan (for new businesses)

4. Discuss how a lending institution would determine the credit worthiness of an individual or businesses.

How do lenders determine credit worthiness?

a) Character - refers to the credit history of the entrepreneur
b) Capacity - involves looking at whether the business will have the ability to operate effectively in the future and generate enough revenue to pay back the loan and meet other business expenses
c) Capital - involves looking at the cash flow of the entrepreneur to determine whether he or she has the capital available to meet his or her financial obligations; whether money will be available to pay off the principal and interest when payments are due
d) Collateral - assets that can be offered as security for the loan

5. Ask students to describe what a franchise is. Discuss franchising.

What is a franchise?

a) A franchise is an agreement that grants the right to operate a business, such as a fast-food restaurant, in the name of a recognized company.
b) The franchisee, or person purchasing the franchise, hopes to reduce his or her risk by purchasing a business that has been shown to be successful. The franchisor, or owner of the existing business, provides all of the business planning needed to operate the business.
c) Buying a franchise may make it easier to obtain financing. Franchisors often assist franchisees by helping to arrange loans from lenders, making it more likely that a loan will be approved. A disadvantage to starting a franchise is that the initial franchise fee and on-going royalty fees can often be expensive.

F. Other Activities

Invite a representative from a local bank, savings and loan, government credit agency, or other financial institution to talk to students about the process of obtaining financing. Have the representative discuss what a lender looks for before approving credit for a business just getting started and for an established business.

G. Conclusion

Obtaining a loan to start a business begins with building a good personal credit history. Sometimes starting small is necessary, and the business then can be built as money becomes available. An entrepreneur who thinks big but starts small can become successful.

H. Answers to Evaluation

1. b
2. a
3. d

4. A manufacturer and retailer might offer credit to a business, give a discount on merchandise being purchased if the money is paid in a designated period of time, or sell merchandise on consignment, in which case it does not have to be paid for by the business until it is sold.

5. Answers may include any three of the following: individual's credit history, information on assets to be used for collateral, information on cash flow to determine whether the business can make interest and principal payments on the loan, history of the individual or individuals starting a business, including experience and training, and the business idea.

6. A franchise is an agreement that grants the right to operate a business, such as a fast-food restaurant, in the name of a recognized company.

Name ______________________

Lesson 7: Obtaining Business Financing

Date ______________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. Which of the following will make loans for real estate, inventory, or capital assets?

   a. Savings and loans
   b. Commercial banks
   c. Manufacturers and retailers
   d. Small Business Administration

2. What is considered good financial management in borrowing money?

   a. To borrow money at the lowest possible interest rate
   b. To borrow the maximum amount of money possible
   c. To borrow a little more money than planned in case it is needed
   d. To borrow money at the highest possible interest rate

3. Which of the following is not used by lenders to evaluate credit worthiness?

   a. Collateral
   b. Capacity
   c. Character
   d. Capability

Complete the following short answer questions.

4. What sort of business financing might a manufacturer or retailer provide to a business?

5. What are three things that a financial institution would look at before granting a loan to a new business?

   a.

   b.

   c.

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6. What is a franchise?

UNIT IX - ENTREPRENEURSHIP

Lesson 8: Making Business Decisions

Competency/Objective: Explain the importance of making business decisions.

Study Questions

1. **Why is it important to be able to make decisions?**
2. **What are the steps in the decision-making process?**
3. **Why is a business budget important?**

References

1. *Agribusiness Sales, Marketing, and Management (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1996, Unit IX.
2. Transparency Master
    - a) TM 8.1: The Decision-Making Process
3. Activity Sheets
    - a) AS 8.1: Preparing a Budget
    - b) AS 8.2: Comparing Budgets
    - c) AS 8.3: Revising a Budget

Lesson 8: Making Business Decisions

TEACHING PROCEDURES

A. Review

The last lesson discussed obtaining financing for a business, including which of the various sources of financing to use and what information to provide to financial institutions. One piece of information needed to obtain money for a new business is a business plan. Making plans for a business, and following them after the business is started, is important if the business's goals are to be reached. Lesson 8 will discuss making decisions about how and when to change the plan. Being able to make good decisions is an important part of operating a business. A business budget is an important planning tool that helps entrepreneurs monitor their progress toward established goals and make decisions affecting the business.

B. Motivation

1. Ask students how they might plan to expand a business with limited funds. Ask them if they would expand the location, buy more inventory, hire additional employees, or buy more equipment. Explain that if they spent all the money on expanding the location and left none for equipment or inventory, they might be left with an empty building. If they bought just equipment or inventory, they might not have enough employees to operate or sell what they purchased. Explain to students that a budget would help them make intelligent decisions about starting, operating, and expanding a business.

2. Read the following example and ask students to explain what additional information Don needs to make a decision about his business.

   Don has been operating a profitable agricultural crop and animal production business with his wife and son for 20 years. He owns several hundred acres of land and rents several hundred more. Don plants over 350 acres in corn and soybeans each year and has a large hog and cattle business. He feeds some of the crops he raises to the hogs and the cattle and sells the rest. Profits on the animal production part of the business have been good. Since Don is very busy, his wife does the record keeping. She keeps separate records on the income and expenses from crop production and animal production but in the past has not broken income and expenses down any further.

   Don now has a chance to buy another 300 acres of productive cropland at a very good price. Over the past 20 years, Don has made most of his profit from his crop operation. He has more than enough equipment to expand his operation, but if he does, he will have to hire someone to help with the hog operation. The hog production part of his business takes about 50 percent of the family's time. The facilities are getting old and need repair, and some new equipment is needed.

C. Assignment

Have students orally present their business plans. See Lesson 3 of this unit to review the specifics of the assignment.

D. Supervised Study

E. Discussion

1. Ask students to explain why it is important for entrepreneurs to be able to make business decisions.

Why is it important to be able to make decisions?

Since not everything will occur as planned when starting and operating a business, it is important to be able to make adjustments to a business plan. All available facts about a problem should be collected, and a solution should be found through a logical decision-making process. The ability to take decisive action is key to succeeding in business.

2. Have students list and describe the steps in the decision-making process. Use TM 8.1 to illustrate the steps.

What are the steps in the decision-making process?

a) Identify the problem.
b) Gather and consider all the facts surrounding the problem.
c) Determine objectives.
d) Come up with possible solutions to the problem. If a solution cannot be determined, more facts should be gathered.
e) Choose the logical solution from the alternatives and implement it.
f) Monitor the situation to see if the chosen solution has solved the problem. If not, make small adjustments and monitor them to see if the problem is corrected.
g) If the chosen solution does not correct the problem, repeat the process.
    1) Reexamine the facts.
    2) Consider any insights gained from the first attempt to solve the problem.
    3) Select and implement an alternative solution.

3. Discuss the different reasons that a budget is important for a business. Complete AS 8.1, 8.2, and 8.3.

Why is a business budget important?

a) As a planning tool, a budget helps a business set priorities and allows the owner or manager to monitor progress toward established goals.
b) A budget can indicate where changes can be made to improve a business.
c) If the business is not doing well, a budget can be adapted by turning budget figures into objectives that will guide a business to adjust spending to reach a desired goal.
d) Budgets allow businesses to judge how changes have affected a business.

F. Other Activities

Have students prepare a budget for a school-based fund-raising activity. Have them estimate income, expenses, and profit. If information on the results of this activity is available from previous years, it can be used as a guide. Monitor income and expenses during the activity. Use the budget during the activity to make any adjustments that students feel are necessary. Compare the budget to the actual results when the activity is completed.

G. Conclusion

Making decisions about changes to be made in a business is part of operating a business. Even with the best plans, circumstances may change, and then decisions must be made about alterations to be implemented. Following the basic steps of the decision-making process will help the owner discover problems and find solutions for them. A budget is a planning tool that serves as a guide to reaching the established objectives and goals of a business and indicates where changes may be made.

H. Answers to Activity Sheets

AS 8.1

Budget

Business Name K&B Farms Date ____________

Gross Income		
Income from alfalfa production	$100,000.00	
Gross Income		$100,000.00
Variable Costs		
Labor	$12,000.00	
Supplies	16,400.00	
Total Variable Costs	$28,400.00	
Fixed Costs		
Land	$14,000.00	
Equipment	6,000.00	
Total Fixed Costs	$20,000.00	
Total Costs		$48,400.00
Projected Returns		$51,600.00

AS 8.2

Budget

Business Name K&B Farms Date ____________

Gross Income		
Income from soybean production	$83,600.00	
Gross Income		$83,600.00
Variable Costs		
Supplies	$12,800.00	
Total Variable Costs	$12,800.00	
Fixed Costs		
Land	$14,000.00	
Supplies	22,000.00	
Total Fixed Costs	$36,000.00	
Total Costs		$48,800.00
Projected Returns		$34,800.00

What will the projected return be if they decide to grow soybeans? $34,800

How much more or less will they earn from soybeans than from alfalfa hay? $17,800 less

What should K&B Farms do? Why? They should continue to raise alfalfa in order to preserve their profits.

AS 8.3

Budget

Business Name K&B Farms Date ____________

Gross Income		
Income from alfalfa production	$70,000.00	
	Gross Income	$70,000.00
Variable Costs		
Labor	$ 7,200.00	
Supplies	15,200.00	
Total Variable Costs	$22,400.00	
Fixed Costs		
Land	$14,000.00	
Equipment	6,000.00	
Total Fixed Costs	$20,000.00	
	Total Costs	$42,400.00
	Projected Returns	$27,600.00

I. Answers to Evaluation

1. b
2. a
3. c

4. The four reasons why a business budget is important are as follows:

   - As a planning tool, a budget helps a business set priorities and allows the owner or manager to monitor progress toward established goals.
   - A budget can indicate where changes can be made to improve a business.
   - If the business is not doing well, a budget can be adapted by turning budget figures into objectives that will guide a business to adjust spending to reach a desired goal.
   - Budgets allow businesses to judge how changes have affected a business.

5. Since not everything will occur as planned when starting and operating a business, it is important to be able to make decisions in case adjustments in a business plan need to be made.

6. 5
7. 3
8. 7
9. 4
10. 2
11. 1
12. 6

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Name ______________________________

Lesson 8: Making Business Decisions

Date ______________________________

EVALUATION

Circle the letter that corresponds to the best answer.

1. What should be done if the sales of a business are not as high as expected?

   a. Increase advertising for the business or product.
   b. Gather complete facts about the problem.
   c. Cut back on the number of employees.
   d. Extend the hours of the business.

2. What must first be done before any decision can be made about a business problem?

   a. The problem must first be recognized.
   b. Alternative solutions need to be developed.
   c. The importance of the problem should be evaluated.
   d. A new budget should be drawn up.

3. What should be done if a solution to the problem cannot be found?

   a. The problem should be ignored.
   b. A decision should be made anyway.
   c. More facts should be gathered.
   d. Several alternative solutions should be tried.

Complete the following short answer questions.

4. What are the four reasons why a business budget is important?

   a.

   b.

   c.

   d.

5. Why is it important to be able to make business decisions?

Place the seven steps of the decision-making process in order by writing "1" in the blank by the first step, "2" by the second step, etc.

6. _______ Choose the logical solution from the alternatives and implement it.

7. _______ Determine objectives.

8. _______ If the chosen solution does not correct the problem, repeat the process.

9. _______ Come up with possible solutions to the problem. If a solution cannot be determined, more facts should be gathered.

10. _______ Gather and consider all the facts surrounding the problem.

11. _______ Identify the problem.

12. _______ Monitor the situation to see if the chosen solution has solved the problem. If not, make small adjustments and monitor them to see if the problem is corrected.

TM 8.1

The Decision-Making Process

1. Identify the problem.
2. Gather and consider all facts relating to the problem.
3. Determine objectives.
4. Identify several possible solutions to the problem.
5. Choose the logical solution from the alternatives and implement it.
6. Monitor the situation to see if the problem is solved. If not, make small adjustments.
7. If not solved, repeat the process.

Lesson 8: ' Making Business Decisions Name ______________________________

Preparing a Budget

Objective: Prepare a budget for a business.

Karen and Bob have decided to go into partnership in the crop production business. They have just purchased 400 acres of land and have decided to grow and sell alfalfa hay. They want to prepare a budget as a guide for their business activities and to monitor the results of their business decisions. They have accumulated the following information:

- The average price of alfalfa hay is $50.00 per ton.
- Karen and Bob know they can expect an average yield of 5 tons per acre.
- They know the fixed cost for land is $35.00 per acre.
- They know the fixed cost for equipment is $15.00 per acre.
- They know the variable cost is $30.00 per acre for the additional labor needed to harvest, move, store, and sell the hay.
- They know the variable cost on the average will be $41.00 per acre for fertilizer, fuel, and supplies.
- Karen and Bob are going to plant all 400 acres with alfalfa.

Prepare a budget for K&B Farms using the information above to project the return that Karen and Bob will get from their crop production business. A budget form is provided on the back of this sheet.

Budget

Business Name ________________________________ Date ____________________

Gross Income		
Gross Income		
Variable Costs		
Total Variable Costs		
Fixed Costs		
Total Fixed Costs		
Total Costs		
Projected Returns		

Lesson 8: Making Business Decisions Name ______________________________

Comparing Budgets

Objective: Make decisions for a business based on a budget.

Karen and Bob are happy with the results of the budget, but they want a larger return on their business. They would like to know whether they could get a larger return if they planted soybeans instead of alfalfa. They gather the following information:

- The average price for soybeans has been $5.50 per bushel.
- They can expect an average yield of 38 bushels per acre.
- Fixed cost on the land will still be $35.00 per acre.
- Fixed cost on equipment will be $20.00 per acre.
- Total variable cost for supplies will be $32.00 per acre.
- They plan on planting all 400 acres with soybeans.

Prepare a budget on the form on the back of this sheet using the information above. Then answer the following questions. Information from AS 8.1 will be needed to complete this activity sheet.

What will the projected return be if they decide to grow soybeans? ______________________________

How much more or less will they earn from soybeans than from alfalfa hay? ______________________________

What should K&B Farms do? Why? ____

Budget

Business Name ______________________ Date ______________

Gross Income		
Gross Income		
Variable Costs		
Total Variable Costs		
Fixed Costs		
Total Fixed Costs		
Total Costs		
Projected Returns		

Lesson 8: Making Business Decisions

Name ______________________________

Revising a Budget

Objective: Revise a budget as a part of contingency planning.

Karen and Bob decide to plant alfalfa. After they plant the alfalfa, they find out that alfalfa hay is only bringing in $35.00 per ton. They know that the average production per acre is still about 5 tons, and they cannot change their fixed cost for land and equipment. After investigating the alternatives, Karen and Bob find out they can sell the hay as they harvest it and save $12.00 per acre on labor for moving and storage labor and $3 per acre in fuel supplies by not moving the hay to storage.

Using the form on the back of this sheet, prepare a revised budget for K&B Farms showing their new projected return. The budget should reflect the new price for hay and the changes in variable costs.

Budget

Business Name ______________________________ Date ____________________

Gross Income		
Gross Income		
Variable Costs		
Total Variable Costs		
Fixed Costs		
Total Fixed Costs		
Total Costs		
Projected Returns		

SCHOOL-BASED BUSINESS/FUND-RAISING ACTIVITY

Operating a business or participating in a fund-raising activity will allow students to put into practice some of what they have learned in the agribusiness curriculum. Possible activities include the following.

- Building and selling shop projects
- Operating snack bars during school events
- Growing and selling vegetables or greenhouse plants and flowers
- Selling school supplies, cards, or calendars
- Cutting and selling firewood
- Preparing and selling fruit baskets
- Selling and planting trees or shrubs
- Hosting a dinner open to the community

Students should be allowed to carry out as many of the tasks involved in organizing and carrying out the activity as is practical. Depending on the activity, the students may produce items to be sold, evaluate costs, set prices, conduct promotions, make sales, prepare budgets and financial statements, etc. A sample inventory sheet, order form, and sales receipt are included in this appendix. The inventory sheet can be used to track the number of items that each student sells, and (for a final tally) the total number of each item sold. Also included is an exercise in making change.

It is important to point out to students that while a school-based business or fund-raising activity will give them experience with sales and business activities, it does differ from actually running a business. Businesses have to pay for the buildings, equipment, labor, and insurance needed to operate. They also have to pay taxes. The school-based business or fund-raising activity does not have these expenses, which allows them to make a profit more easily.

Business Opportunities

List some opportunities for a school-based business or fund-raising activity for your school and the reasons why you think they could be successful.

Opportunities	Reasons

Promotional Possibilities

- Display promotional materials provided by the manufacturer or supplier where appropriate.
- Make posters announcing the activity and display them in the school, community buildings, and community businesses.
- Prepare an advertisement to be placed in a local newspaper.
- Prepare a radio advertisement for a local radio station.
- Have the activity announced over the school's P.A. system.
- Prepare a direct mail advertisement. (It may be possible to mail it at the school's bulk mail rate.)

Inventory Checklist

Items to consider before purchasing a product or supplies:

- What are the projected sales?
  - Are the total sales projected by group members realistic?
  - Can arrangements be made to purchase the product after orders are taken?
- Who is in charge of purchases?
- Can any unsold inventory be returned to the supplier without charge?
- Can additional inventory be purchased within a short period?
- Does the inventory need special storage? Is it perishable?
- Was the product damaged when received?
- Who is in charge of controlling inventory?
- When and how will the inventory be paid for?
- How will a running inventory be kept and checked to see if sales are being reached or if more orders need to be placed?
- How often will counts be done to see if paperwork matches inventory?
- What type of paperwork is necessary to control what and how much of the product is issued to members for the activity?
- What is the last date that merchandise can be sold?

Checklist for School-Based Business or Fund-Raiser

- Has the school policy on school-based businesses or fund-raisers been checked?
- Are there any other groups or organizations in the school or community doing the same thing?
- Can or should other groups or organizations within the school or community be involved in the business or fund-raiser?
- If a product is to be sold, has the potential supplier been contacted to check details?

Name of product -

Name of company -

Address -

Phone number -

Contact person -

- Does the company offer sales brochures to aid in selling?
- Does the company offer other promotional materials?
- What is the price of the product?
- Do school groups receive discounted prices?
- Must the product be paid for when ordered?
- Can the company deliver the product when needed?
- Does the product need a special type of care or storage?
- Does the company provide sales forms?
- Does the company offer prizes for top sellers?
- Have other local groups or organizations ever done business with the company before? What is its reputation?
- After all expenses are paid, can a profit be reasonably expected? What is the estimated percent or amount of profit?

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INVENTORY TALLY SHEET

Company Name

Items Being Purchased:

Item number	Item description	Item number	Item description
1.		6.	
2.		7.	
3.		8.	
4.		9.	
5.		10.	

MEMBER NAME	ITEM 1	ITEM 2	ITEM 3	ITEM 4	ITEM 5	ITEM 6	ITEM 7	ITEM 8	ITEM 9	ITEM 10	TOTAL

Total

ORDER FORM

Customer's Name ______________________________

Address ______________________________

Telephone No. ______________________________

Quantity	Description	Price	Total Price
		Total	
		Amount Paid	

Salesperson's Name ______________________________

Organization's Name ______________________________

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RECEIPT

Customer's Name ______________________________

Amount Paid $____________

Items Purchased ______________________________

____

____

____

____

____

____

____

Salesperson's Signature ______________________________

Organization's Name ______________________________

Making Change

Because cash registers now calculate the amount of change that a customer receives, making change has become a lost skill. When operating a school-based business or activity, however, it may be necessary to use a money drawer or a cash register that does not calculate change.

If a customer's sale totals $5.73 and the customer gives you a ten-dollar bill, the change should be returned in the following manner:

- While change is being made, keep the ten-dollar bill separate from the money used for making change until the transaction is completed.

- Determine the amount of change using the least number of coins or bills to reach the desired amount.

  $5.73 =
  .02 = 2 pennies = $5.75
  .25 = 1 quarter = $6.00
  $4.00 = 4 singles = $10.00

- Count the change back to the customer in the following manner while handing him or her the change:

  "The sale was $5.73 out of ten dollars."

  "Two pennies makes $5.75 ."

  "One quarter makes $6.00."

  "One dollar makes $7.00, two makes $8.00, three makes $9.00, and four makes $10.00."

  "Thank you for your purchase!"

- If the customer is satisfied with the amount of change, place the ten-dollar bill in the correct place in the drawer.

- If change is being carried in a wallet or bag, keep the denominations of bills separated. Alternate new bills with old ones so the new ones do not stick together.

- Remove money that is not needed for change from the cash drawer frequently and store it in a secure location.

Practice making change by completing the following transactions.

1. The sale is $8.67, and the customer gives you a twenty-dollar bill.

The sale was $8.67 out of twenty dollars.

______ penny(ies) make(s) ______.

______ nickel(s) make(s) ______.

______ quarter(s) make(s) ______.

______ dollar(s) make(s) ______.

______ ten(s) make(s) ______.

2. Explain how to make change for a $1.87 purchase out of a ten-dollar bill.

3. Explain how to make change for an 11¢ purchase out of a one-dollar bill.

For each exercise, count the change back to another student. Make sure to state the amount of the purchase and the amount of money given and to thank the customer for the purchase.

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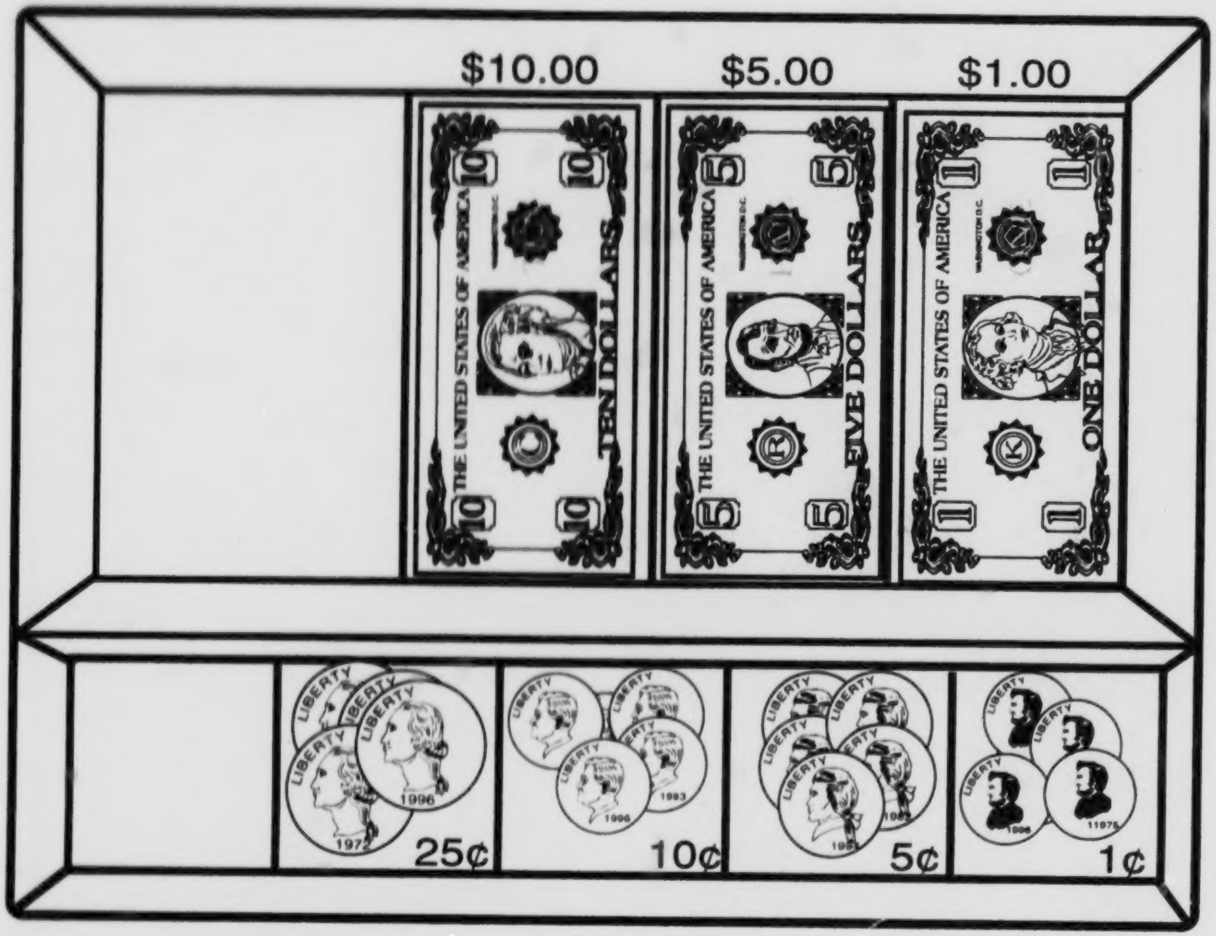
Using a Cash Drawer


$10.00
$5.00
$1.00
THE UNITED STATES OF AMERICA
TEN DOLLARS
THE UNITED STATES OF AMERICA
FIVE DOLLARS
THE UNITED STATES OF AMERICA
ONE DOLLAR
LIBERTY
25¢
10¢
5¢
1¢

INCOME STATEMENT

Name: ______________________________

Date: ______________________________

REVENUE	
Gross Revenue	
CASH EXPENSES	
Total Cash Expenses	
Net Cash Income	
NONCASH EXPENSES	
Net Income from Operations	
Gain or Loss on Capital Assets	
Net Income	

BALANCE SHEET

Name: ____________________

Date: ____________________

Current Assets		Current Liabilities	
Total Current Assets		Total Current Liabilities	
Fixed Assets		Long-Term Liabilities	
Total Fixed Assets		Total Long-Term Liabilities	
		Total Liabilities	
		Net Worth	
Total Assets		Total Liabilities & Net Worth	

STATEMENT OF CASH FLOWS

Name ______________________ For the period ending ______________________

CASH FLOWS--OPERATING ACTIVITIES	
	$
NET CASH FLOW FROM OPERATIONS	$
CASH FLOWS--INVESTMENT ACTIVITIES	
	$
NET CASH FLOW FROM INVESTMENTS	$
CASH FLOWS--FINANCING ACTIVITIES	
	$
NET CASH FROM FINANCING ACTIVITIES	$
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	$
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	$
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$

Budget

Business Name ______________________________ Date ______________

Gross Income		
Gross Income		
Variable Costs		
Total Variable Costs		
Fixed Costs		
Total Fixed Costs		
Total Costs		
Projected Returns		

Steps in Developing a Business Plan

* RECOGNIZE AN OPPORTUNITY AND DEVELOP A BUSINESS IDEA.

* IDENTIFY AND EVALUATE COMPETITORS.

* IDENTIFY THE MARKET FOR THE PROPOSED PRODUCT OR SERVICE.

* IDENTIFY THE RESOURCES NECESSARY AND CALCULATE THE CAPITAL NEEDED TO OBTAIN THEM.

* COLLECT INFORMATION ON REGULATIONS, CONTRACTS, LICENSES, AND PERMITS.

* DEVELOP A MARKETING PLAN.

* SELECT A BUSINESS LOCATION.

* PREPARE AN ESTIMATED FINANCIAL PLAN FOR THE BUSINESS.

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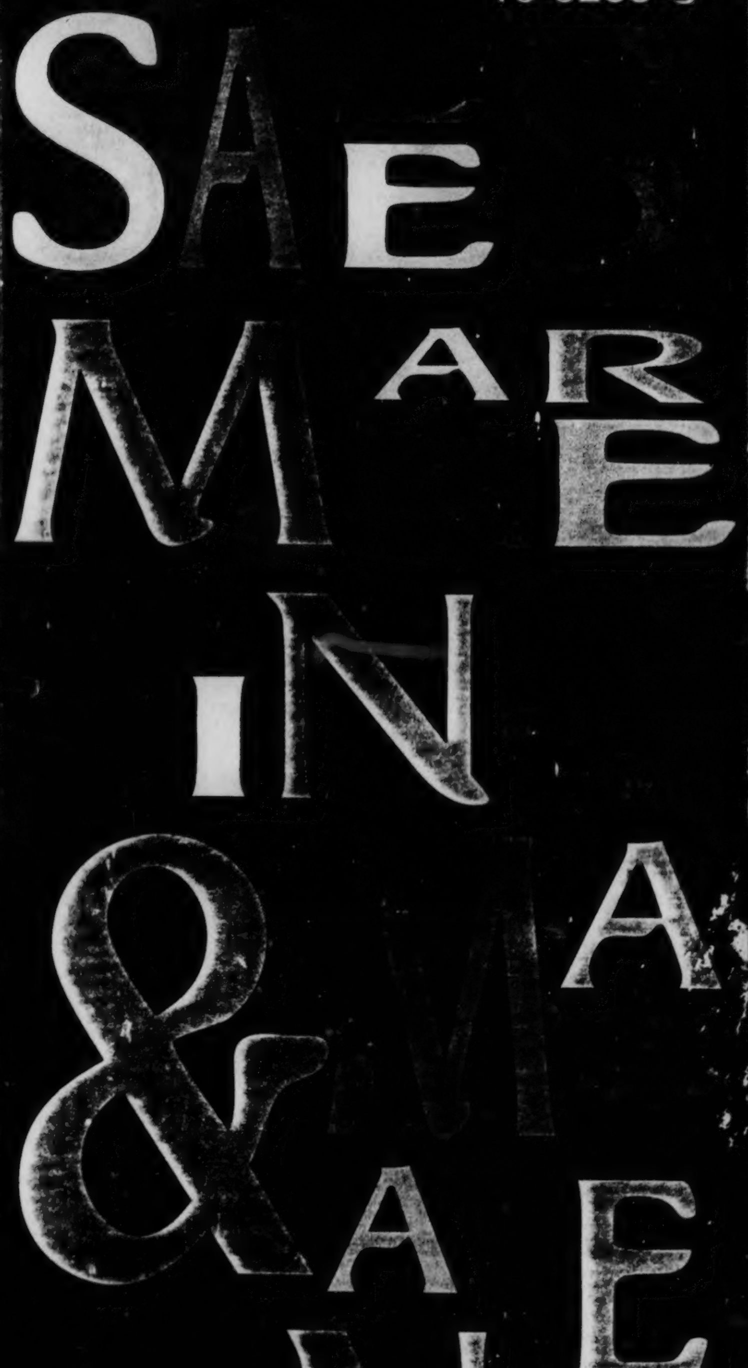
AGRIBUSINESS SALES, MARKETING & MANAGEMENT

Student Reference



IN COOPERATION WITH
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FOOD AND NATURAL RESOURCES
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Student Reference

AGRIBUSINESS SALES, MARKETING, AND MANAGEMENT

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FOREWORD

The development of the *Agribusiness Sales, Marketing, and Management* curriculum guide is the result of suggestions by the MVATA Teaching Aids Committee. The Agribusiness Sales, Marketing, and Management Advisory Committee suggested the topics to be included and reviewed the materials.

This curriculum contains nine units. Topics include agriculture as an industry, economic principles in agribusiness, financial management, personal development, communication skills, preparing for a sale, making a sale, promotional tools, and entrepreneurship. An instructor guide can be purchased separately.

During the summer of 1981, the Missouri State Board of Education formally adopted the concept of "Instructional Management Systems" (IMS) as a priority for the 1981-82 school year. The Missouri Commissioner of Education described the IMS concept as a practical way of "organizing for excellence" in education. To meet the demand for greater productivity and accountability, the director of Vocational Education applied the elements of IMS to form the Vocational Instructional Management System (VIMS). The VIMS process provides a framework to use in planning and organizing to assure excellence in Missouri's vocational education system by focusing greater attention on the management of teaching and learning.

The instructor's guide to accompany this student reference incorporates the needed component parts to aid agriculture teachers in the implementation of VIMS.

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Department of Elementary and
Secondary Education

AGRIBUSINESS SALES, MARKETING, AND MANAGEMENT

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Lesson 1:
Agriculture Today

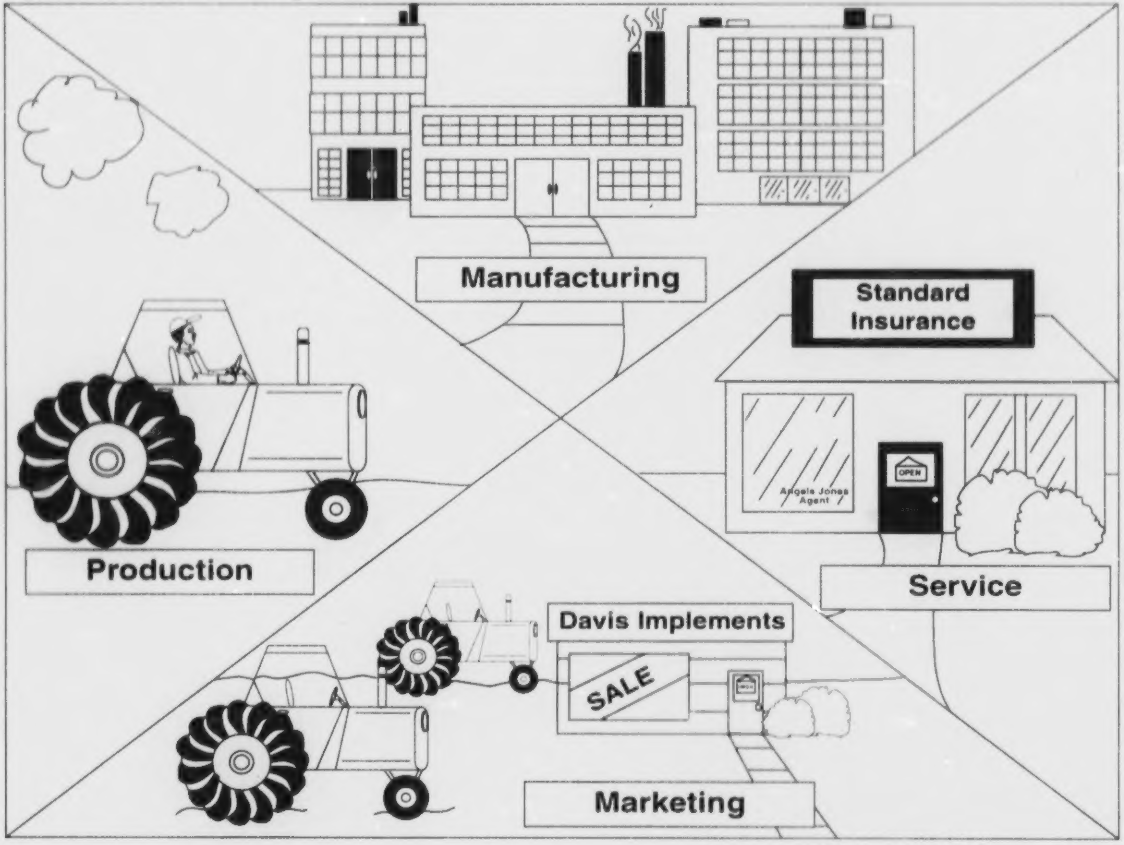
Agriculture is an industry critical to the United States. The improved technology used in agricultural production has enabled the producers of food and fiber to produce more and better products with the labor of fewer people. Production is a very important part of agriculture, but today's agricultural industry encompasses much more. It consists of thousands of agricultural businesses and millions of employees who process, transport, and sell food and fiber products. It also consists of businesses that supply producers with machinery, seeds, fertilizer, supplies, and the finances necessary for the production of agricultural goods. The U.S. agricultural industry is a diverse industry that plays a vital role in the economies of the United States and the world.

Sectors of the Agricultural Industry

The different sectors of the agricultural industry are production, manufacturing, service, and marketing (see Figure 1.1). The production sector of agriculture in the United States is very diversified, including the production of food, fibers, and specialized agricultural products. The manufacturing sector makes the inputs necessary for the production of agricultural goods and processes those goods for sale to the consumer. The service sector provides financing, service, or support to the production sector to enable it to produce. The marketing sector transports and sells the outputs of the manufacturing sector to producers and the outputs of the production sector in domestic and international markets. Together the various sectors form the world's largest source of agricultural products.

The manufacturing, service, and marketing sectors of the agricultural industry support the activities of

Figure 1.1 - Sectors of the Agricultural Industry



the production sector. For example, producers rely on businesses in the manufacturing sector to make such things as fertilizer and chemicals, feed, and machinery that are needed for production; producers may belong to this sector if they supply feed and breeding stock directly to other producers. The manufacturing sector also includes processing plants that transform raw agricultural goods into foodstuffs and textiles for consumers. In the service sector, credit agencies provide financial support for production, while insurance companies protect producers against losses. Federal and state government agencies are also a part of the service sector. They provide price supports, conservation and planning services, and information on agricultural research to producers. The marketing sector includes businesses that transport raw and processed agricultural goods to wholesalers and retailers who sell them to other businesses or to consumers, as well as businesses engaged in the transport and sale of the goods made by the manufacturing sector for agricultural production.

Agriculture and the U.S. Economy

The United States has an abundance of agricultural resources and leads the world in agricultural production, producing enough for both domestic consumption and export. The agricultural industry is the largest industry in the United States. It plays a very important role in the U.S. economy.

The agricultural industry generates a great deal of revenue. In 1990, agricultural production contributed over 71 billion dollars to the total gross national product (GNP) of the United States, while agricultural food processing alone added 83 billion dollars. That same year, agricultural manufacturing, transportation, wholesaling, and retailing combined contributed over 320 billion dollars to the GNP. The international trade in agricultural products is also important, with over 30 billion dollars worth of products being exported each year. Over 20 percent of net agricultural production income in the United States in 1990 came from exports. All the agricultural producers and agribusinesses in the agricultural industry together generated over 700 billion dollars, which is equal to 18 percent of the gross national product of the United States.

In order to produce this revenue, the agricultural industry employs a large number of people, more than any other industry in the United States. In 1990, the agricultural industry employed around 20 million people, which was equal to 18 percent of the total national employment. The exportation of agricultural products alone has created one million jobs for American workers.

The size of the agriculture industry is due in part to improved technology and specialization, which has helped the United States to produce, process, market, and distribute a large selection of quality products at lower prices than any other nation in the world. Many citizens of other countries spend a much larger portion of their income on food. In 1990, consumers in the Philippines spent an average of 52 percent of their income on food, while consumers in Korea spent 36 percent of their income, and consumers in West Germany and Sweden spent over 18 percent of their income on food. In comparison, the average family in the United States spent only 11 percent of its total income on food.

The international market for U.S. agricultural products has also had an effect on the economy of the country. The volume of international trade has contributed to the large size of the agricultural industry in the United States.

In addition to the revenue it generates and the jobs it creates, the international trade in agricultural products has had a number of other benefits. The expanding market caused by international trade creates a greater demand for U.S. agricultural products, so producers get better prices for their goods. Trade and competition have also guided producers in the United States to put precious resources to their best use. The production sector thus works closer to capacity, increasing efficiency, which results in lower prices for the consumer. In addition, agricultural exports allow the United States to establish trade balances and import from other countries food products that are unavailable from U.S. producers. Trade thus increases the variety and lowers the price of these foods for consumers. Trade balances affected by agricultural exports also influence the volume of non-food products imported from other countries.

U.S. Agriculture and the International Economy

The United States agricultural industry has become a source of not only domestic but also international economic growth. The United States agricultural industry plays an important role in international markets. It has become a source of food and fiber products for the world, with many countries relying on the U.S. agricultural industry as a source of food.

Agricultural importing and exporting also allows nations to rely on each other for products they want and need but may not be able to produce, helping to increase the standard of living throughout the world.

Expanding markets through international trade improves the use of resources for agricultural production and increases economic output in other countries as well as the United States. For example, bananas could be grown in the continental United States. To grow them so far north, producers would have to build special greenhouses. Importing bananas from the countries in Central America that specialize in their production is a much more efficient use of resources, since the costs of producing bananas in Central America are not as great as they would be in the United States. Each nation is therefore able to devote its resources to what it produces well, and the economies of all the nations involved benefit from the trade of agricultural products.

The U.S. agricultural industry also benefits other industries in the countries engaged in trade with the United States. U.S. agricultural producers, processors, manufacturers, and distributors buy machinery, equipment, and supplies from international markets in order to produce, process, and distribute agricultural products. The agricultural industry also relies heavily on the importation of petroleum products for operating machinery and equipment.

U.S. agricultural trade in international markets also plays an important part in international diplomacy and foreign relations. Countries that rely on each other for agricultural trade will generally have better relations. Good international relations help to stabilize the world economy, allowing all nations to profit.

Summary

The U.S. agricultural industry involves much more than just production. It includes thousands of agribusinesses that support and benefit from the production of food and fibers. The agricultural industry has a significant impact on the U.S. economy and is a major source of agricultural food and fiber products for the world. The international trade in U.S. agricultural products improves the allocation of resources worldwide and has increased the standard of living for people throughout the world.

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Kohls, R. L. *Marketing of Agricultural Products.* New York: Macmillan Publishing Company, 1990.

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Lesson 2:
Opportunities in Agribusiness Sales, Marketing, and Management

Agriculture has changed dramatically over the past 200 years, from a time when most people were involved in agricultural production to one in which relatively few producers provide food for many people. Improvements in technology continue to allow agricultural producers to produce more on less land, while production requires fewer and fewer people. However, the agricultural industry today involves much more than production. It consists of thousands of agribusinesses that support production by supplying the inputs for production and then processing and marketing the outputs. While agricultural production is employing fewer people, other agribusinesses are beginning a new era of growth. The changes in production have caused major restructuring and a growing need for trained employees in many sectors of agribusiness. The U.S. agricultural industry offers an abundance of choices to those people interested in careers in agriculture.

The History of Agricultural Employment

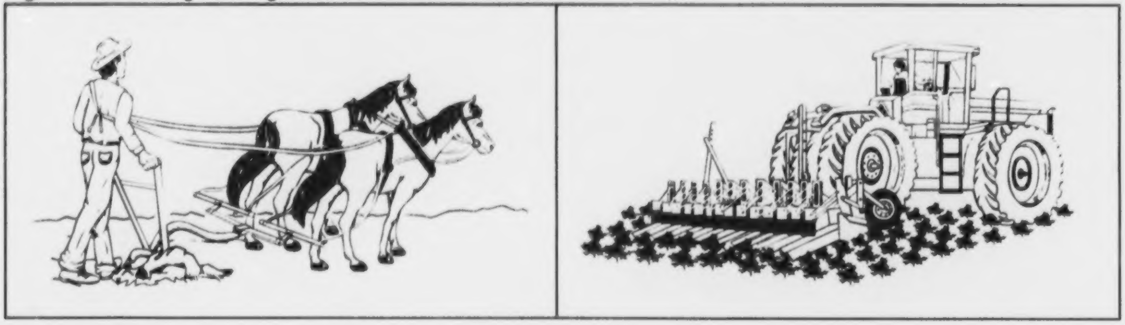
In the late 1700s and early 1800s, agriculture was very different from today. Nine out of every ten working people worked on a farm. Technology was primitive, with farmers producing crops with some of the same tools that had been used for hundreds of years. Many agricultural producers were involved in subsistence farming, in which farms were self-sustaining units for growing crops and raising livestock primarily for the farm families' needs. Clothing and most of the farm tools were homemade. Little trading of agricultural goods took place because farm families needed much of what they produced to survive. Farm families did carry out limited trading to obtain products that they could not produce. Agribusiness developed from farmers trading excess crops and livestock for such things as salt and sugar. This small amount of agricultural trading provided the basis for what is now the largest agricultural industry in the world.

As the nineteenth century progressed, more advanced methods of farming and improved agricultural technology were developed. For example, new tillage methods made it possible to put more land into production, increasing yields. The use of standardized, manufactured farm tools also increased agricultural yields. Agricultural production took a big leap forward in 1834 when Cyrus McCormick patented and began producing the McCormick reaper. John Deere made his first steel plow out of a circular saw in 1837. Soon John Deere and other companies were manufacturing steel plows. Although these early farm implements seem primitive today, their invention made it possible for many farmers to produce more than they needed for survival.

By the late nineteenth century, the foundation of the modern agricultural industry was in place. With the increased production made possible by new methods and more advanced technology, farmers could feed the growing population of the United States, which was swelling due to large-scale immigration. But, now farmers had to rely on manufacturers and suppliers for inputs for production and on other agribusinesses to process and sell their goods.

The era of the subsistence farmer was almost over by the beginning of the twentieth century. Technology and specialization in production were spreading at a rapid pace, allowing agricultural producers to produce more than ever before and use fewer people to do it. The invention of the

Figure 2.1 - Changes in Agriculture



steam tractor meant that land that had supplied feed for the horses used in production became available for agricultural production. Specialization became a major factor in production as individual producers began to concentrate on producing just a few crops or a particular type of livestock. Agricultural production took another step forward when Ford began marketing the first mass-produced gasoline tractor in 1917. Petroleum products then began to be a major input for the production of agricultural goods.

By mid-century, producers had begun to realize greater benefits from increased agricultural production. In 1947, net income from production climbed to 15.5 billion dollars. This increase in production caused producers to rely on agribusinesses more than ever before, making them a major part of the agricultural industry.

Between 1950 and 1975, U.S. agriculture grew even more, with the United States producing more agricultural goods than any other country in the world. During this period, output from agricultural production increased by 52 percent, with 60 percent fewer hours being used in production. Training future agricultural producers and agribusiness workers to sustain this productivity began to be seen as important for the future of agriculture, so the National FFA Center in Alexandria, Virginia, was dedicated on July 24, 1959. By 1975, the average U.S. producer was feeding 53 people, and only 4 percent of the labor force was involved in agricultural production, compared to 20 percent in 1935 and 90 percent in 1776.

Today the U.S. agricultural industry is a diverse industry consisting of agricultural producers and thousands of agribusinesses and their employees. Two percent of the U.S. population, or 4.8 million people, work in agricultural production. However, more than 15 million people work in agribusinesses in the United States to support that production.

Future Trends for Employment in Agriculture

The 1990s have seen the beginning of another new era for the agricultural industry with even more changes in the production sector. By the year 2000, fewer than 50,000 producers are expected to produce three-fourths of the total agricultural output in the United States. While production is being concentrated in fewer production units, and the overall number of producers is decreasing, the need for trained employees for corporate farms has increased.

Accompanying this shift away from production, changes in the agricultural industry have created a need for increasing numbers of trained employees in manufacturing, processing, and marketing. The demand for workers who support production is greater than ever before. For example, several sectors of the agricultural industry will require employees trained in computer monitoring and control systems. Individuals trained in the management and monitoring of pesticides, groundwater contamination, disposal of animal waste, and many other ecological concerns will be necessary to satisfy the growing concern for a safe and healthy environment. With the changing desires and needs of consumers, employees who have a background in nutrition and food science will be needed to address health issues in the production of food. The change from a production-driven to a highly competitive, customer-driven, and global agribusiness marketplace will continue to create exciting new career opportunities.

Career Opportunities in Agribusiness Sales, Marketing, and Management

Many exciting career opportunities are available in agribusiness sales, marketing, and management. When choosing a career, the first thing to decide is what careers are of most interest. Research into those careers will allow an individual to find out important information about how to reach his or her personal goals. Information on a position's educational requirements, and where to obtain an education, salary, location, availability, and responsibilities will be necessary to decide whether to pursue a particular career.

Agricultural sales careers are a vital component of the agricultural industry. In almost every agribusiness, sales generate income, and without adequate sales the agribusiness will fail. Many different sales positions are available in the agricultural industry. The outlook for employment opportunities is good in retail and wholesale sales, which includes the sale of seeds, fertilizer, pesticides and herbicides, equipment and machinery, and animal medicines. Sales representatives may work at a particular location, such as a farm equipment dealership, or they may travel to cover a network of customers spread over a sales territory. Education and skill requirements vary, with unskilled positions open to individuals with high school diplomas and other positions requiring university degrees and a great deal of technical knowledge about the product being sold. Entry-level careers in sales, retail or wholesale, may offer the training necessary to obtain positions requiring more technological and professional sales knowledge. Most retail sales employees receive salaries, while those selling wholesale receive commissions or salaries and commissions. A career in sales requires an outgoing personality, initiative, persistence, good communication skills, and a willingness to learn about the product or service being sold to become a better salesperson.

Opportunities for people prepared for careers in agricultural management will increase in coming years. The USDA reported in 1990 that there would be a 10 percent shortage of college graduates in food and agricultural sciences annually through the 1990s. The agricultural industry requires graduates in these areas to fill management positions. Agricultural management positions are available in many businesses, including farm equipment factories, feedlots, corporate farms, and businesses involved in wholesale or retail sales. Many careers in management require college degrees or technical education beyond high school and a varied amount of experience in the selected field. Entry-level positions may offer chances for promotion into management careers with on-the-job training and experience. Besides education or training and experience, careers in agricultural management require the ability to direct, train, and work with people.

More detailed descriptions of some job positions in agribusiness sales, marketing, and management are provided below.

- Retail sales manager - Managers of retail businesses need both interpersonal and business skills. They are responsible for overseeing purchasing, advertising, store layout, finances, price maintenance, store computer systems, personnel, employee and customer relations, employee and management training, and safety and security. They need good business management, communication, and public relations skills.

- Retail salesperson - Retail sales positions may involve a variety of tasks, including customer service, cash register operation, counter and display maintenance, computer price maintenance, and direct selling to customers. Many retail salespersons deal directly with people, making communication and sales skills an important asset.

- Wholesale sales manager - Wholesale businesses obtain goods from manufacturers or producers and sell them to retailers, producers, or other wholesalers. Wholesale sales managers may be responsible for purchasing goods, controlling inventory, and warehousing the products they resell. They also oversee the sales staff. Many managers are responsible for advertising and promotional campaigns, personnel, employee training, and customers and employee relations. They need good business management and communication skills.

- Wholesale salesperson - A wholesale salesperson is responsible for selling products obtained from manufacturers by a wholesale business. Job responsibilities include making sales and taking purchase orders, checking customers' inventories, providing and maintaining displays, and returning outdated or excess inventory from the customer. Sales, communication, and inventory management skills are important for a job in wholesale sales.

- Personnel manager - Personnel managers are also called human resource managers. They generally handle employee matters, which often includes the hiring and training of new employees and overseeing employee benefits. They also conduct interviews and may be involved in employee evaluations. Personnel managers need good communication skills and knowledge of both local and federal employment and benefit laws.

- Plant manager - Managers involved in manufacturing or processing goods may need a variety of both interpersonal and technical skills. An industrial or manufacturer manager must have the technical knowledge to produce the product. Manufacturing or industrial managers may be responsible for overseeing product quality, supplies of raw materials, production schedules, maintenance of equipment, and supervision and training of workers.

- Commodities trader - Cash commodities and futures contracts are traded in commodity markets. A commodities trader must understand the economic factors affecting U.S.

farm commodities in a global market. Commodities traders buy and sell futures contracts and options. They may also advise producers and speculators who want to reduce their price risk. A commodities trader needs training in business and economics. A person entering this field must be able to work under very stressful conditions.

- Corporate farm manager - As corporate farms become more common, people will be needed to manage them. Responsibilities may include supervising feed and feeder livestock purchases, overseeing employees and their training, and overseeing sales and other operations of a production facility. People wishing to enter this field need a strong background in agribusiness management, animal science, and strong communication and problem-solving skills.

International Career Opportunities

In addition to the careers listed above, international career opportunities are growing as the United States imports and exports more agricultural products each year. Many U.S. sales, marketing, processing, and manufacturing companies are involved in international markets. Job opportunities for individuals interested in careers connected to the international agricultural trade will continue to increase in the future.

Among the many new and exciting international sales, marketing, and management areas are agricultural export sales, international marketing, agribusiness management, distribution systems, and international product development and packaging. Most of the positions in these areas require specialized education and training. Many careers in the international market require an educational background that includes the study of a foreign language along with international finance, international trade, international law, or marketing. Entry-level positions are also becoming available that allow individuals with degrees in agriculture to obtain training for other positions in the international market.

One area in which career opportunities are growing is export sales, since more commodities are being exported to other countries as the production of agricultural goods increases. A person entering this field might work directly for a processor or manufacturer of agricultural goods as a salesperson. He or she might also work at an export brokerage firm. Education and training needed for a career in exports include foreign language and customs, international economics, international finance, agribusiness management, and marketing.

Summary

Agricultural production in the United States has changed dramatically over the past 200 years. Changes are still going on, and the U.S. agricultural industry is now at the beginning of a new era. In agriculture, more is being produced each year with fewer people. The changes in production have been accompanied by the creation of new employment opportunities in the thousands of agribusinesses that support production.

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Lesson 1:
Supply and Demand

Cindy is a cattle buyer from a large midwestern feedlot. Her job is to travel to different auctions in the area and buy certain types of cattle depending on the feedlot's need. How does she know what is a fair price? Why does the price change so much from week to week? Are there things to consider when trying to predict next month's price? She is buying cattle all year long. Therefore, she needs to be able to plan ahead as well as meet the feedlot's present needs.

Demand and Quantity Demanded

Demand for an agricultural commodity like cattle, hogs, or grain is the amount buyers are willing and able to purchase at different prices at a given time and place. Demand is the first component of price. Many people may be willing to buy a new car now, but if they are not able to, they have no effect on demand.

Quantity demanded is how much buyers are willing and able to buy at each specific price. As the price changes, the quantity demanded will change.

Supply and Quantity Supplied

Supply is the amount of product or commodity producers are willing and able to provide at different prices at a given time and place. Supply is the second component of price. Buyers may be very willing and able to buy a product (demand), but if there is a limited supply, the demand may not be met immediately.

Quantity supplied is how much suppliers are willing and able to provide at each specific price. As the price changes, the quantity supplied will change.

Determining Price

Price results from the interaction of the forces of supply and demand. If demand increases without a change in supply, price will go up; if demand decreases, price will fall. If supply increases without a change in demand, price will drop, and if supply decreases without demand changing, price will rise. How does this affect the price of cattle? Consider one step at a time.

If there was a severe drought in a cattle-producing area, what might happen? The price of feed would most likely increase as cattle producers started buying more feed, causing less to be available. If the feed became too high-priced or unavailable, producers would start selling their cattle sooner. Then more cattle would be on the market than the feedlots were willing to buy. If one group tried to sell and the other group was not willing to buy, the price would drop until someone became willing to buy. In this case, an increase in supply would have occurred with no change in demand.

What happens if there is an increase in demand? Cindy's feedlot just sold several tons of meat to Japan to be delivered in a few months. Her company now has a greater need for cattle. She may have to pay more to get the cattle because she is competing with other buyers who also have to satisfy their customers. This may cause the buyers to pay more. An increase in demand without a change in supply will cause an increase in price.

These are just two examples of factors affecting supply and demand. Every day events around the world affect supply and demand at the same time. This interaction determines price.

Law of Demand

The Law of Demand states that when the price of a product increases with no change in factors other than price, less of the product will be purchased. Lower prices mean that more of a product will be purchased. High prices thus result in a lower quantity demanded, and lower prices increase the quantity demanded. The Law of Demand can be depicted by a demand schedule and illustrated by a demand curve.

A demand schedule is a set of prices and the corresponding quantities of an item that would be purchased at each price at a given time and place.

Table 5.1 - Demand Schedule for Hamburger

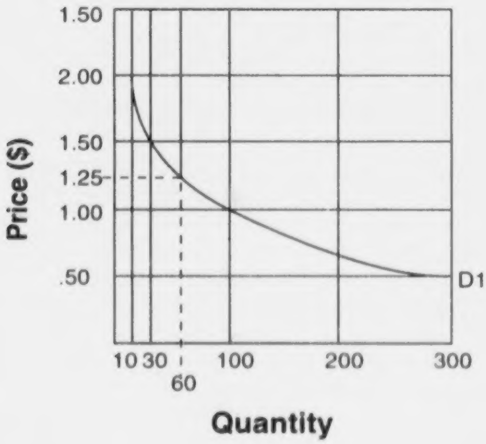
Price/Pound	Pounds Bought
$2.00	10
$1.50	30
$1.00	100
$.50	300

If hamburger were offered for sale at each of the prices listed in Table 1.1, Jerry would be willing to purchase the number of pounds of hamburger that correspond with each price level. This would be his demand schedule for hamburger.

If hamburger were being sold for $1.00 per pound, Jerry would be willing to purchase 100 pounds. However, if the price increased to $1.50 per pound, the quantity of hamburger demanded by Jerry would be reduced to 30 pounds.

The demand schedule can be plotted on a graph as illustrated in Figure 1.1. By plotting the quantity of hamburger demanded by Jerry at each price level and connecting those points in a smooth line, a demand curve can be produced. The demand curve is simply a graphic illustration of a demand schedule. Each point along the demand curve can be used to estimate the quantity of hamburger that Jerry would purchase at each price level. For example, if the price of hamburger were $1.25 per pound, Jerry would purchase 60 pounds of hamburger.

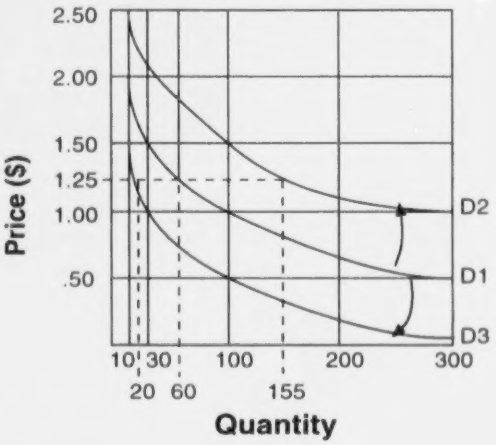
Figure 1.1 - Demand Curve



Demand Shifters

When the prices of goods and services change, the quantities demanded change along demand curves. However, the "demand shifters" described below will cause an entire demand curve to shift in one direction or another (see Figure 1.2). In the case of an increase in demand, the quantities demanded at each price level will increase. Then the entire demand curve will shift upward and to the right (D_2). A decrease in demand would be reflected by a demand curve that shifts downward and to the left (D_3).

Figure 1.2 - Shifts in the Demand Curve



Consumer income - With a change in income per capita, or average income per person, a change in demand is bound to occur. If people have more money to spend, they will usually be more willing to buy an item. With several people buying more of a limited number of the same item, the demand will increase. Because it increases consumer income, inflation will shift the demand curve to the right.

Population - As the number of people trying to buy the same item increases, the demand for that item will also increase.

Individual taste - Some consumers will buy a product because it is needed or because it is a "slight" luxury. Others will buy a product because it fits into their lifestyle; it is the "in" thing to have or to serve. The influence of taste is hard to measure and may change relatively quickly. Still, a sense of it can be a useful tool for predicting the success of a new product or determining how valuable a proven product is.

Competing products - If the price of a competing product is much lower than the standard price for an item, eventually consumers will try the competing product. If they stay with the new product, this will lower the demand for the old product. Manufacturers use lower prices as a tool to build demand for their products. They also offer coupons and advertise taste improvements and superior quality to gain customers.

Consumer expectations - Expectations play a special role as demand shifts. Because it is hard for producers to predict rapid changes in expectations, it can be difficult to always supply exactly what consumers want. Most consumers buy for only a limited amount of time--a few days or a week or two. Very few consumers buy and store products such as food for much longer than that. If consumers expect a price increase, they are much more likely to stock up. If they expect a price decline, they may hold off making larger purchases. If enough people react the same way at the same time, it can have a direct effect on demand and, thus, on price.

Advertising and promotions/salespeople - Advertising and promotions are ways of trying to increase consumers' awareness and desire to have a certain product. Some advertising methods used are television and radio commercials, magazine ads, and billboards. Promotions include such things as free trial samples and related giveaways.

A salesperson can also become a demand shifter by showing customers that they have a need for a particular product or service. A consumer who has been using one product may change to the salesperson's product if the salesperson convinces him or her that the product meets his or her needs better. For example, a salesperson may convince a producer to plant a different brand of seed that will increase yields for that crop, increasing demand.

Using the original demand curve (D_1) pictured in Figure 1.2, Jerry would have purchased 60 pounds of hamburger per year at a price of $1.25 per pound. If beef promotions, advertising, and Jerry's preference for hamburger (i.e., demand shifters) caused his demand for hamburger to shift to D_2, then he would be willing to increase the quantity of hamburger he purchased in a year to 155 pounds.

Other factors could cause a decrease in Jerry's demand for hamburger. If the Food and Drug Administration (FDA) reported that excessive consumption of red meat contributed to heart disease, then Jerry's demand curve for hamburger might shift to D_3. Then, if the price of hamburger remained at $1.25 per pound, Jerry could reduce his purchases to only 20 pounds per year.

Keep in mind that the factors that influence demand are constantly changing. It is difficult to accurately predict the demand for a product. However, an understanding of the concept of demand and factors that influence it is important in business management and the study of economics.

Law of Supply

The Law of Supply states that when the price of a product is lowered with no change in factors other than price, less of the product will be supplied. Conversely, if the price of a product is increased, a larger quantity of the product will be supplied to the market. The Law of Supply can be depicted on a supply schedule or illustrated by a supply curve.

A supply schedule is a listing of the amount of a product that the industry is willing to offer for sale at different prices.

Table 1.2 - Supply Schedule for Hamburger

Price/Pound	**Pounds Offered for Sale**
$2.00	300
$1.50	100
$1.00	30
$.50	10

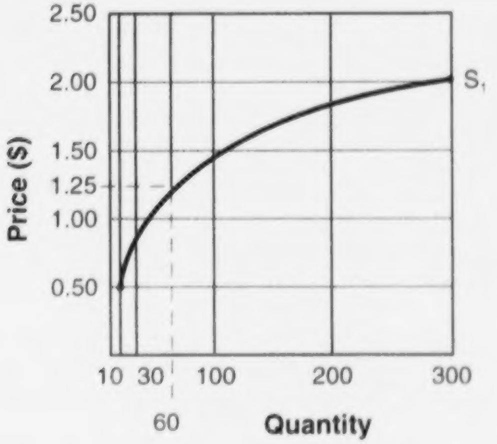
A supply curve is simply a graph illustrating a supply schedule. Notice that the supply curve is plotted in the opposite direction of the demand curve. Similar to a demand curve, a supply curve indicates the quantity of a product that suppliers are willing to provide at various price levels.

Figure 1.3 shows that a supplier would provide 30 pounds of hamburger for sale if the price were $1.00 per pound. If the price were reduced to $.50 per pound, the supplier would only be willing to provide 10 pounds of hamburger. If the price were to increase to $1.50 per pound, the supplier would be wiling to increase the quantity supplied to 100 pounds.

Supply Shifters

When the prices of goods and services change, the quantities supplied change along supply curves. However, the "supply shifters" described below will

Figure 1.3 - Supply Curve



cause an entire supply curve to shift in one direction or another (see Figure 1.4). If certain events caused supply to increase, then the supply curve would shift to the right (S_2). At each price level the amount of hamburger each supplier would be willing to provide to the market would increase. A decrease in supply can be illustrated by a supply curve (S_3) that has shifted to the left. The result of a decrease in supply would be that at each price level suppliers would be willing to provide a smaller quantity of hamburger for sale.

Supplier expectations - Suppliers are constantly trying to predict the best strategy for the future. If they expect an increase in price, they will try to increase production.

Natural forces - Nature often causes drastic changes in the supply of agricultural products. Floods can destroy an entire region's crops. Droughts can severely reduce the amount harvested. If natural disasters strike several areas at the same time, the supply curve can shift.

Storage and perishability - These product qualities are also key factors. Currently, a lot of grain is stored at harvest when the price is normally the lowest. After harvest, the price will begin to rise, and some of the stored grain will be sold. This helps maintain price stability. It is much harder to store perishable items, such as fresh fruit and vegetables. Thus, it is much harder to control the supply of perishables, and dramatic price shifts may result.

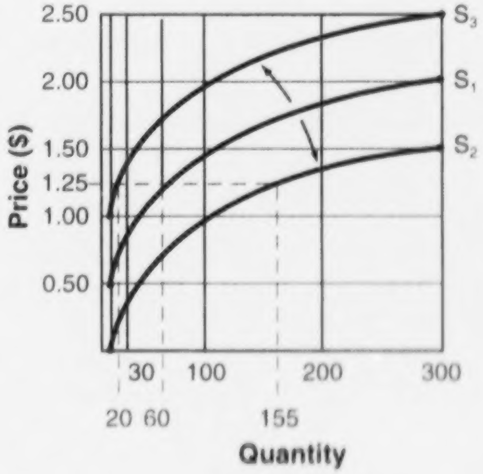
Cost of production - An increase in the cost of production, such as that caused by an increase in the price of an input item, will cause a decrease in the supply of a good. Because it increases the cost of production, inflation shifts the supply curve to the left.

Technology - Another important factor has been advances in technology. Dramatic changes in technique over the past few decades has caused a huge increase in the amount of crops produced from each acre of land.

Government programs - Often the government will develop policies to try to control supply, which, it is hoped, will increase prices of agricultural products.

Using the original supply curve (S_1), Frank would have supplied 60 pounds of hamburger if the price were $1.25 per pound. If a beef shortage occurred in the United States, the supply curve for hamburger would shift to the left (S_3), and Frank would then provide only 20 pounds of hamburger. See Figure 1.4.

Figure 1.4 - Shifts in the Supply Curve



Assume that a new packaging technique extended the shelf life of hamburger. This new technology would shift the supply curve to the right (S_2) and increase the quantity that suppliers were willing to provide the market at each price level. In this example, Frank would be willing to supply 155 pounds of hamburger if the price were $1.25 per pound.

As with demand, remember the factors that influence supply are constantly changing. Understanding the Law of Supply is important in the study of economics and management.

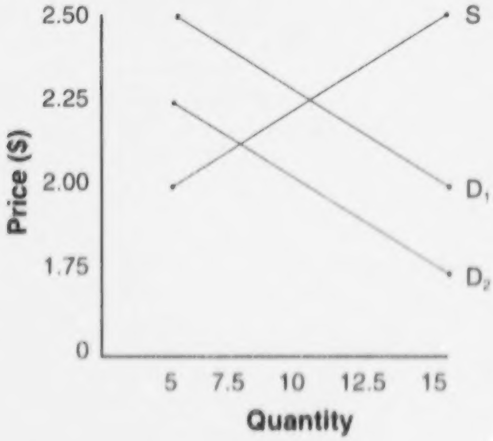
The Equilibrium Point

Supply and demand curves lie in opposite directions. What would happen if these lines were placed on the same graph? Somewhere they would have to cross, and the point at which they did would be the equilibrium point.

At the equilibrium point, a balance exists between the quantity supplied and the quantity demanded. This is how price is determined in the free market. If there is a change in either supply or demand, there will be a new equilibrium point. If the price is too high, the quantity supplied will be greater than the quantity demanded, and a surplus will develop. If the price is too low, a shortage will develop forcing the price to rise to the equilibrium point. In free markets this is how products sell at market-clearing prices; quantity supplied equals quantity demanded.

In Figure 1.5, note that the equilibrium price for D_1 and S is $2.25. At this price, 10 units will be bought. If the price increases to $2.50 without a change in supply or demand, only 5 units will be purchased. If the demand changes to D_2, a new equilibrium point will be reached at 7.5 units.

Figure 1.5 - Equilibrium Price



Goods Demanded by Consumers

Luxury items - These are goods or services that are generally considered nonessential to the survival or well-being of an individual. Driving a fancy sports car or eating steak every day may be enjoyable; however, one will survive without doing so. In good economic times, consumers will spend more on luxury items than they will in hard times.

Necessity items - These are goods or services that are generally considered essential to the survival or well-being of an individual. These items include shelter, food, clothing, and medication.

Elasticity

Elasticity is the measure of how sensitive the market is to changes in price or quantity. Items are elastic to varying degrees, subject to several factors. There are three types of elasticity: inelastic, elastic, and unit elastic.

Inelastic - This is when the change in price is greater than the relative change in quantity. In other words, the price can change drastically, and consumers will still buy nearly the same amount. Items that consumers need for health or well-being tend to be inelastic. An example is insulin for someone who has diabetes.

Elastic - This is when the change in price is less than the relative change in quantity available. With elastic items, a small change in price can have a huge effect on sales. Elastic items tend to be luxury items. A store can often reduce prices by 15 percent and actually make a large profit. Why? Because consumers are willing to respond to a change in price; they are more likely to buy when they feel they are getting a good deal. This will increase quantity sold. The increase in quantity sold offsets the reduced price.

Unit elastic - This is when the change in price is equal to the relative change in quantity available. Unit elasticity only exists under special conditions. If a store has a sale, the reduction in price must be exactly offset by the increase in items sold. If there is an increase in price, the increase must exactly offset the loss due to fewer items sold, or unit elasticity does not apply.

The three types of elasticity are influenced by several factors.

1. Ability of products to substitute for each other
2. Increase or decrease in supply
3. Increase or decrease in demand

4. Income changes in the population that buys the products
5. Price increases or decreases demanded by buyers and sellers

Demand Price Elasticity and Supply Price Elasticity

Price is affected by demand and supply. Elasticity is responsiveness to these factors. After a price change, consumers will change their buying habits. The amount of change is measured by demand price elasticity. The amount suppliers will change their production levels, due to a change or expected change in price, is measured by supply price elasticity.

Demand price elasticity is equal to:

$$\frac{\textit{\% change in quantity demanded}}{\textit{\% change in price}} \quad \textit{or}$$

$$E_d = \frac{(Q_2 - Q_1) \div Q_1}{(P_2 - P_1) \div P_1}$$

E_d = demand price elasticity
Q_1 = original amount demanded
Q_2 = new amount demanded
P_1 = original price charged
P_2 = new price charged

For example, the price of a movie ticket is $4, and the theater decides to lower it to $3. The attendance increases from an average of 20 people per movie to 30 people per movie. Was lowering the price a good management decision? The numbers go into the formula as follows:

$$E_d = \frac{(Q_2 - Q_1) \div Q_1}{(P_2 - P_1) \div P_1} = \frac{(30 - 20) \div 20}{(3 - 4) \div 4} = \frac{10 \div 20}{-1 \div 4}$$

$$= \frac{10}{20} \times \frac{4}{-1} = \frac{40}{-20} = \frac{4}{-2} = -2.0^*$$

*Demand price elasticities are always negative.

What does elasticity of 2.0 mean? If the absolute value (or the nonnegative value) of the number is larger than one, it means that there is an elastic demand and total revenue will increase with a cut in price as more people come. If the number is less than one, demand is inelastic, and total revenue will decrease because there will not be enough people to compensate for the difference in price. If it is equal to one, it would be a state of unit elasticity, and a change in price would be exactly offset with no change in total revenue. The supplier can use the same formula for determining the elasticity of supply.

$$\frac{\textit{\% change in quantity supplied}}{\textit{\% change in price}} \quad \textit{or}$$

$$E_s = \frac{(Q_2 - Q_1) \div Q_1}{(P_2 - P_1) \div P_1}$$

E_s = supply price elasticity
Q_1 = original supply
Q_2 = new supply
P_1 = original price
P_2 = new price

In an example, the Jay County elevator buys corn from local producers and resells it as livestock feed. During January, this elevator paid $2.10 per bushel. At this price, producers have been willing to supply 7,200 bushels per day, but this is not enough to meet demand. Therefore, the elevator decides to raise the price to $2.20 per bushel. Producers are now willing to supply 8,500 bushels per day. What is the elasticity of supply?

$$E_s = \frac{(Q_2 - Q_1) \div Q_1}{(P_2 - P_1) \div P_1} = \frac{(8{,}500 - 7{,}200) \div 7{,}200}{(2.20 - 2.10) \div 2.10}$$

$$= \frac{1{,}300 \div 7{,}200}{.10 \div 2.10} = \frac{1{,}300}{7{,}200} \times \frac{2.10}{.10} = 3.79$$

Because 3.79 is greater than one, the supply of corn from storage is elastic. A small change in price will result in a larger change in quantity supplied.

Importance of Demand and Supply Price Elasticity

Demand price elasticity will allow an estimate to be made of how much the quantity demanded will change when the price goes up or down. The supply price elasticity will help in estimating how much production will change as price goes up and down. These two tools show how demand and supply are interacting and trying to reach a new equilibrium point. By using these tools, an agribusiness manager can predict whether a business decision will be profitable.

agribusiness manager can predict whether a business decision will be profitable.

Summary

Supply and demand are the two key concepts in determining how much is produced, what the price is, and how much is stored. Understanding the principles of supply and demand is essential to understanding how the marketplace works. Some items have different reactions to supply and demand. These reactions are measured as elasticity. Luxury goods and necessity goods have different types of elasticity. There are several demand and supply shifters.

Credits

Bacon, Kevin, Nick Boren, and Van Kirkwood. *Agricultural Management and Economics (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1988.

Lesson 2:
The Principle of Diminishing Returns

Michelle has just been promoted to the position of supervisor for a large chemical spraying company. The company is expanding, and she has been given a new area of the state as her district. She has been covering the district with only one employee while establishing more customers, but business has been going well, and now she and the employee are having trouble keeping up. She knows she will need to hire more employees and will need to do some calculating to determine how many.

Total Product, Marginal Product, and Average Product

Total product - Total product (TP) is the total output or yield. Michelle must first determine total product to decide how many additional employees she will need. Total product, in Michelle's case, is the number of spraying jobs done each day. With only one worker, Michelle can complete four jobs per day.

Marginal product - Marginal product (MP) is the change in output resulting from each additional unit of input. For Michelle, marginal product would be the change in the number of spraying jobs completed each day (output) because of each additional worker (unit of input) hired.

Average product - Average product (AP) is the total output produced divided by the total number of units of input. In this case, it would be the number of jobs done each day divided by the number of workers.

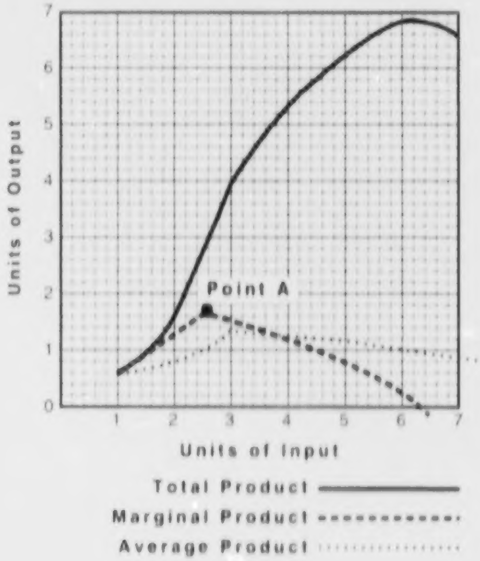
The Relationship of TP, MP, and AP

The relationship between TP, MP, and AP can be illustrated on a graph, as in Figure 2.1. As total product increases at an increasing rate, marginal product and average product also increase, but marginal product increases at a faster rate than average product. While total product continues to increase, first marginal product, then average product begin to decrease. At the point where the lines representing MP and AP cross, the TP begins to increase at a decreasing rate. When marginal product equals zero, and average product is still positive, total product is at its maximum level. When MP becomes negative, TP begins to decrease.

Diminishing Physical Returns

The principle of diminishing physical returns states that at some point in time, marginal product decreases with each additional unit of input, because as additional units are added, they become less efficient. That point in time is represented on the graph in Figure 2.1 as Point A. Michelle knows that she has only a limited amount of equipment and is serving a limited area. She understands that her new district can only become so big. Because of these limits, her total product for her district will also reach a limit. She wants to do a good job, but she knows if she hires too many workers, they will add less to the total product. Her concern is how many workers she should hire.

Figure 2.1 - Relationship of TP, MP, and AP



After hiring one additional worker, her district can do seven jobs per day. The additional worker gives a marginal input of one; marginal input is the difference between the initial amount and the next level of input. The marginal product for her district is the three additional jobs completed. The average product for her district is the total amount of work divided by the number of workers (7 ÷ 2 = 3.5).

What happens when she hires the second additional worker and finishes nine jobs per day? Notice in Table 2.1 that the marginal product is decreasing even though the total product is still rising. As more inputs are added, marginal product will continue to decrease. Michelle's goal is to use these numbers to determine the best level of operation for her district.

Table 2.1 - Calculating Diminishing Physical Returns

Workers	Jobs/Day (TP)	MI	MP	AP
1	4	XX	XX	4
2	7	1	3	3.5
3	9	1	2	3

Diminishing Economic Returns

The principle of diminishing economic returns states that beyond some point, marginal economic returns, like marginal product, decrease with each additional unit of input. Michelle wants to expand her territory, but she also wants to increase her company's profit. While the number of jobs completed may be increasing, the additional amount of work accomplished by each employee is decreasing because of the limitations of equipment and district size. As her territory nears its most profitable level of operation, the economic returns, or profit, will also decrease as additional levels of input are added.

To determine the most profitable level of operation for Michelle's district, a few more columns must be added to the table.

Total revenue - Total revenue (TR) is the total income from all the jobs. Each job costs the customer $35.

Total cost - Total cost (TC) is the cost of each employee. (Other business costs will be ignored). Each employee receives $80 per day. The cost per day is the number of employees multiplied by $80.

Marginal revenue product - Marginal revenue product (MRP) is the increase in income created by adding an additional input by hiring another employee. In the example, the inputs are increasing at a constant rate, while the outputs are variable.

Marginal input cost - Marginal input cost (MIC) is the increase in total cost with each additional unit of input. In the example, the MIC is the $80 cost divided by the marginal input.

Michelle should continue to hire workers as long as MRP is greater than or equal to MIC (MRP ≥ MIC).

Table 2.2 shows that Michelle should only hire one additional employee because the marginal revenue product is less than the marginal input cost when the second additional worker is hired. Michelle now knows that with her available equipment and district size she only needs two employees.

All of the concepts described above are very important for persons in any business, including agribusiness. These concepts are used to help owners and managers determine the most profitable level of operation. Michelle, like other managers, can use these concepts to help determine what the production level should be for her district.

Maximum Profit

Maximum profit occurs when the net economic returns are at their greatest point, or MIC = MRP. At that level, if any more input is added, it will cost more than the gain realized. If less inputs are used, then the opportunity to increase earnings is being ignored. In Michelle's case, maximum profit would be reached with one additional employee. Marginal revenue product is less than the marginal input cost if a third employee is hired.

Maximum Production and Maximum Profit

Maximum production is when production is at its highest possible level. Maximum profit occurs when net economic returns are at their highest point, or MIC = MRP. Maximum profit always occurs at a level of production that is lower than maximum production.

Table 2.2 - Calculating Diminishing Economic Returns

Workers	Jobs/Day	MI	TP	MP	AP	TR	TC	MRP	MIC
1	4	XX	4	XX	4	$140	$80	XX	XX
2	7	1	7	3	3.5	$245	$160	105	80
3	9	1	9	2	3	$315	$240	70	80

Summary

In any business, production can be increased by adding inputs of land, labor, capital, and management. However, for the business to operate at its maximum profit potential, its manager must be able to determine when marginal input cost becomes equal to marginal revenue product.

Credits

Bacon, Kevin, Nick Boren, and Van Kirkwood. *Agricultural Management and Economics (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1988.

Lesson 3:
Fixed and Variable Costs

Modern transportation offers benefits that were unavailable a century ago, but with these benefits come costs. Most families today have more than one car. Some high school students own cars, and if they do not, they generally are allowed to use one of the family cars. Certain costs are associated with owning or using a car. What has to be paid for when operating a car?

Fixed Costs

Fixed costs are incurred regardless of the level of production or use. They are also referred to as ownership costs or overhead costs. Even owning a car involves paying these types of fixed costs. If a student borrowed money to buy a car, then the payments and car license would be fixed costs. These types of costs have to be paid on a regular basis, no matter how little or how much the car is used.

Types of Fixed Costs

Every business incurs five types of fixed costs. They are referred to as the DIRTI Five. They are explained below, again using a car as an example.

Depreciation - Depreciation is the loss of value each year due to wear, age, or obsolescence. Even a car that is never driven will decline in value because new models come out, with innovative features. Most people prefer newer cars, so older ones lose value.

Interest - The cost of using money is called interest. If an individual borrows money, he or she must pay interest; if he or she puts money in a savings account, the bank pays interest. An opportunity cost is also associated with using capital in business, rather than investing the money in an interest-bearing account.

Repairs and Shelter - Repair and shelter costs are incurred to slow wear caused by weather and time. These costs are different from depreciation, because depreciation costs are related to the original investment. Shelter costs are related to housing and maintenance. For example, if a car is stored in a garage when it is not being used, damage caused by the effects of weather such as a hailstorm can be prevented. Repair and shelter costs will occur regardless of how often the car is used.

Not all repair costs are fixed. Repairs associated with the use of an item are variable costs; however, repairs required even though an item has not been used are fixed costs. Maintenance done to prevent costly breakdowns would be a fixed cost.

Taxes - Property taxes are collected on personal items such as cars each year, regardless of whether they have been used.

Insurance - Insurance is a tool to help manage risk. Risk is the uncertainty owners and managers face in doing business. A company pays a premium for insurance, and the insurance company will reimburse the company if a major loss occurs. The insurance premiums on a car are constant.

Variable Costs

Variable costs change in response to the production level or the amount of use. The more an item is used, the more the total variable costs will be. For example, fuel for a car is a variable cost. Total fuel cost varies considerably, depending on whether one drives 50 or 500 miles per week. Variable costs in an agribusiness include labor, supplies, advertising, gasoline, and utilities.

How Variable Costs Become Fixed

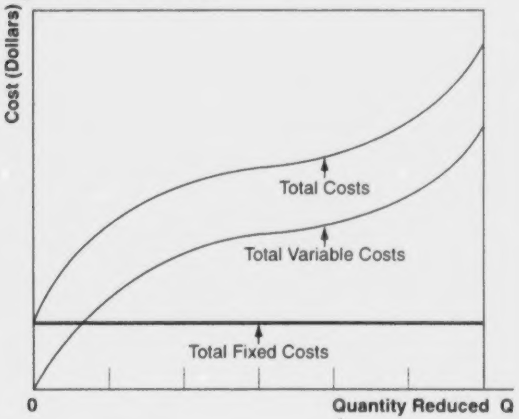
Once an item is bought, its cost becomes fixed. The money is already spent; it cannot be spent somewhere else. Suppose a person is on a long trip and has to pay a high price for gas. If a few miles later that person sees a station where gas is cheaper, he or she cannot take advantage of the lower price. The tank is already full, and the gas has already been purchased. The cost of gasoline has therefore gone from a variable to a fixed cost.

Total Cost

The total cost of producing any product is the sum of the fixed and variable costs. A product can be anything produced and sold or bought and resold. It may also be a service that a business provides.

An agribusiness such as a farm supply store, for example, may have the following total costs. Several fixed costs are involved in starting and running a farm supply store. For one thing, the owner must take into account the depreciation on the building. He or she will incur the cost of buying or replacing counters and fixtures. Interest must be paid on borrowed money or lost on money that could be invested elsewhere. Weather and time can be quite destructive to buildings, and repairs will have to be made. Property and sales taxes have to be paid. Insurance premiums will probably be due monthly, especially if money is borrowed. If money has not been borrowed, not taking out an insurance policy means risking very high costs later, if the building is damaged or destroyed. In addition to these fixed costs and others, the store will have variable costs, such as utilities, salaries, supplies, advertising, and the many other expenses involved in operating an agribusiness. These variable costs must be added to the fixed costs to determine the total cost.

Figure 3.1 - Total Cost



Total cost is represented in the graph in Figure 3.1. Notice that total fixed costs stay the same at all levels of production. Total variable costs are represented by a curved line because these costs change with different levels of production. Notice also that the distance between the total variable cost curve and the total cost curve is the same at all levels of production. Total cost is equal to variable costs plus fixed costs. Since fixed costs do not change, the distance between the curves is constant.

Average Fixed Cost, Average Variable Cost, and Average Total Cost

In addition to the total fixed cost, total variable cost, and total cost, per-unit costs are also calculated by businesses. Average fixed cost, average variable cost, and average total cost are all per-unit costs.

Average variable cost (AVC) - Average variable cost is the total variable cost (TVC) divided by the quantity (Q). This gives an average per-unit variable cost.

$$AVC = \frac{TVC}{Q}$$

Average fixed cost (AFC) - Average fixed cost is the total fixed cost (TVC) divided by the quantity (Q). It shows the average fixed cost per unit.

$$AFC = \frac{TFC}{Q}$$

Average total cost (ATC) - Average total cost is the total fixed cost (TFC) plus the total variable cost (TVC) divided by the quantity (Q). It gives the average total cost per unit.

$$ATC = \frac{TFC + TVC}{Q} = \frac{TC}{Q}$$

Per-Unit Costs

The concept of per-unit cost can be very helpful in making business decisions. Per-unit costs are used because they reduce values to equal units such as tons, acres, or bushels. The business manager is then able to more easily compare different situations. In general, businesses want a low per-unit cost in relation to the units they are selling.

For example, Dan is the manager of a large feedlot. He is presently buying corn to use in the operation and is paying an average of $2.05 per bushel. His company has the chance to buy 320 acres of land located adjacent to the feedlot that would be ideal for planting corn. Dan has been asked to analyze the fixed and variable costs involved in planting and harvesting corn and determine if it would be feasible for the company to buy the land to supply corn to the feedlot. Dan figures that fixed costs on the land and equipment per year will be $27,200, whether the company plants one acre or all 320 acres. After talking to other producers in the area, Dan decides that he can anticipate an average of 110 bushels of corn per acre with variable costs of $95.00 per acre.

Dan plugs the figures ($95.00 to plant and harvest one acre or (10 bushels) into the formulas to determine the per-unit costs of planting corn. He calculates the average variable cost:

$$AVC = \frac{TVC}{Q} = \frac{95}{110} = .86$$

The average variable cost would be $0.86 per bushel.

Dan estimates the total fixed cost at $27,200. He begins by calculating the average fixed cost if the company decides to plant all 320 acres ($27,200/320 acres). The total fixed cost per acre is $85.00:

$$AFC = \frac{TFC}{Q} = \frac{85}{110} = .77$$

The average fixed cost is $0.77 per bushel.

If the company planted fewer than 320 acres, the total fixed cost per acre would be higher. For example, total fixed cost for 200 acres ($27,200/200 acres) would be $136.00 per acre. The average fixed cost per bushel would then be $136.00/110 bushels per acre, or $1.24 per bushel.

Finally, Dan figures average total cost for 320 acres:

$$ATC = \frac{(TVC + TFC)}{Q} = \frac{85 + 95}{110} = \frac{180}{110} = 1.64$$

The average total cost is $1.64 per bushel.

Dan now knows that as long as corn prices are higher than $1.64 a bushel, the company will be saving money by buying the 320 acres and planting corn on them. At the present price of $2.05 per bushel, the company will be saving $0.41 per bushel. By looking at the per-unit cost, Dan was able to show the owners of the company how to increase profits by reducing costs.

Short Run and Long Run

The short run is a period during which certain inputs, or resources, are fixed and others are variable. In the short run, only those inputs considered to be variable may be changed. For example, a manager can change the number of workers hired, the amount of gas used, the amount of supplies used, and other variable costs. In order to minimize losses, business should continue in the short run as long as all variable costs are being met.

In the long run, all resources are variable, and there are no fixed costs. The long run encompasses long-range planning for future needs. Should the business expand? Does it need more or less land? What are the equipment and facility needs? These are all questions that can be addressed in the long run. In the long run, returns must exceed total costs for the business to survive.

Summary

When making business decisions, the agribusiness manager should consider two types of costs that make up the total costs of a business. In the short run, costs can be classified as either fixed or variable. Fixed costs include depreciation, interest, repairs and shelter, taxes, and insurance. Variable costs are very important because as long as managers meet these costs, they will continue to operate. In the long run, all costs are variable and will have to be met for the business to succeed. Examining per-unit costs like AVC, AFC, and ATC helps managers when they consider what changes might make a business more profitable.

Credits

Bacon, Kevin, Nick Boren, and Van Kirkwood. *Agricultural Management and Economics (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1988.

Lesson 4:
Substitution of Inputs

In the first lesson, the principle of diminishing returns was used to help determine the best level at which to operate an agribusiness. The second lesson dealt with fixed and variable costs and showed that understanding the relationship between these costs is important to any business manager. This lesson explains how to determine the best combination of inputs that can be used in a business without changing the level of production or increasing costs.

Substitution

Substitution is replacing one input with another in an attempt to maximize profit. It is illustrated in Figure 4.1. People have been using substitution throughout history. Animals replaced people for heavy work like plowing and hauling. Many centuries later, tractors and trucks replaced the oxen, horses, and wagons. In both cases, as years went by and time and labor became more critical, the substitutions made work faster and easier.

Substitution may also be used to lower costs, as when cheaper feed ingredients replace costly ones to form a good ration price or machines replace people in certain jobs.

Determining Maximum Profit

A manager wants to organize a business with the best combination of inputs, so that inputs cannot be added to or subtracted from the business without decreasing profit. This condition exists at the best level of input substitution.

Determining maximum profit by substitution is related to the principle of diminishing returns, in which inputs can only be added up to a certain level without decreasing profit.

Methods of Substitution

Constant substitution - Constant substitution is when one resource can be substituted for another at the same rate for each additional unit of input. For example, many swine producers feel that milo can be substituted for corn in a hog ration on a pound-for-pound basis. If this is true, a farmer would want to compare unit prices and use whichever grain is cheapest.

Variable substitution - Variable substitution is when one resource can be substituted for part of another at a different rate for each additional unit of input. For example, a business decides to replace some workers with machines. They predict the following results (Table 4.1).

Figure 4.1 - Substitution

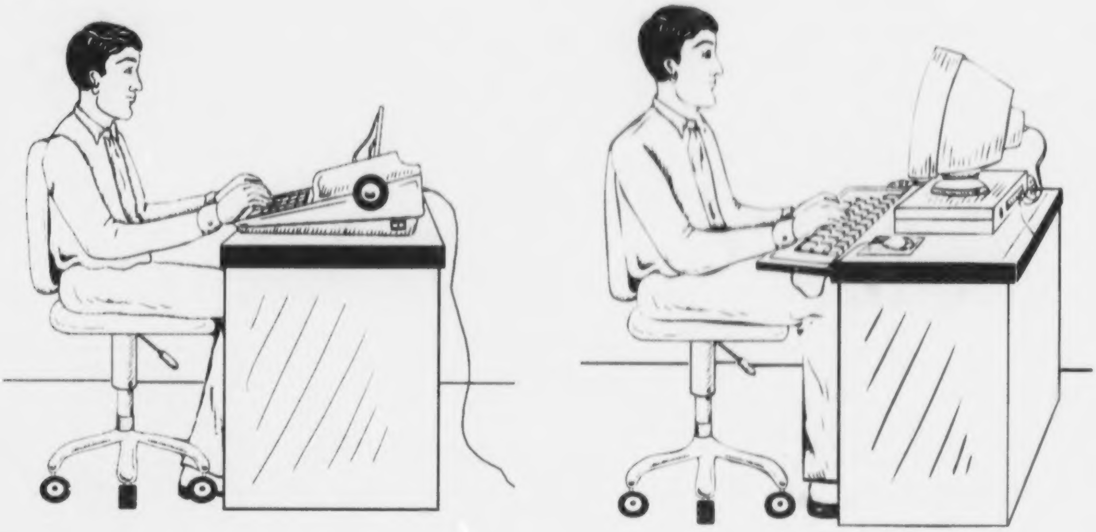


Table 4.1 - Variable Substitution

Number of Workers	Workers Replaced	Number of Machines	Machines Added
25		0	
18	7	1	1
13	5	2	1
10	3	3	1
8	2	4	1

The first machine replaced seven workers, but the second machine only replaced five, and the third machine only replaced three workers. The fourth machine only replaced two workers.

Calculating the Best Rate of Substitution

Calculating the best rate of substitution is a matter of finding out how much may be gained and how much may have to be given up with each level of substitution. The first step is to determine the marginal rate of substitution (MRS) at each level.

$$MRS = \frac{\textit{number of units replaced}}{\textit{number of units added}}$$

Now the business firm can determine its marginal rate of substitution. The marginal rate of substitution for the business in the example above is shown in Table 4.2.

The next step is to determine the price ratio (PR) of the added and replaced inputs. The price ratio is

$$PR = \frac{\textit{price of added unit}}{\textit{price of the replaced unit}}$$

If the cost of a worker is $250 a week and the cost of owning and operating the machine is $1,000 a week, what is the price ratio?

$$PR = \frac{\$1{,}000}{\$250} = 4$$

To determine the best rate of substitution, the marginal rate of substitution (MRS) must be compared to the price ratio (PR). The best rate occurs where the marginal rate of substitution equals the price ratio. This is the most profitable combination of inputs to use.

How many machines should the firm in the example substitute? Compare the marginal rate of substitution in Table 4.2 with the price ratio of 4. The company should only substitute two machines because if they use more, the marginal rate of substitution will be less than the price ratio. MRS should always be greater than or equal to PR ($MRS \geq PR$).

The firm must be sure that it has enough capital available for the purchase and operation of the machines. Forecasts indicate that purchasing the machines will be made possible by the reduction in labor costs for the firm, which amount to more than the cost of the machines.

Table 4.2 - Marginal Rate of Substitution

Number of Workers	Number of Workers Replaced	Number of Machines	Number of Machines Added	Marginal Rate of Substitution
25		0		
18	7	1	1	7/1 = 7
13	5	2	1	5/1 = 5
10	3	3	1	3/1 = 3
8	2	4	1	2/1 = 2

What happens if prices change, causing the price ratio to change? Labor prices and inflation, along with other factors, might cause a change in the price ratio. If that happens, the new price ratio will have to be compared with the marginal rate of substitution to find the new best level of substitution.

Summary

An efficient manager may be able to increase a firm's profits through substitution. The level of substitution is determined by comparing the marginal rate of substitution (MRS) with the price ratio (PR) and substituting when MRS > PR. The best rate of substitution is when MRS = PR.

Credits

Bacon, Kevin, Nick Boren, and Van Kirkwood. *Agricultural Management and Economics (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1988.

Lesson 5:
Opportunity Cost

It is Wednesday night, and Kent has made a date with Katie. Unfortunately, Friday night is the only time Katie is available. Kent was supposed to work Friday night at the grocery store from 5 p.m. until 11 p.m. He makes $5 per hour. A friend is willing to work Kent's hours for the money, so he has that part worked out. But Kent now has to add the $30 he is giving up to the other costs of the date, such as gas and his share of the evening's expenses.

Opportunity Cost

Opportunity is the potential for increasing income or the chance for betterment. Cost is the value paid for an item or the amount given up for the use of something. Opportunity cost is the return on the best alternative not selected. In the previous example, Kent had a chance to date Katie; however, to go on the date, he had to not only pay for the date but also give up the opportunity to work and earn money.

Opportunity cost for a business is determined in the same way. A business is often faced with two alternatives for investing its money. A bank may be willing to pay 6 percent interest; a certain stock may pay 9 percent. If the business places its money in the bank, the opportunity cost is the 9 percent that it could earn on the stock. Because money is not actually lost, opportunity cost is considered a noncash cost.

If Kent has five 100-dollar bills to invest to achieve the following returns, where should he invest his money? He has to invest in the first increment before he can invest in the second. What will be the opportunity cost of putting all the money in the bank?

As shown in Table 5.1, if all the money is put in the bank, there would be a return of $530. If Kent invests the money where it will be the most profitable, he will invest the first three units in livestock. He will then move to the lawn service because the first unit of the lawn service returns more than the fourth unit of livestock.

In this example, all five units can be invested for more than the bank would return. The most profitable return will yield (115 + 120 + 121) + (110 + 125) = 591. The opportunity cost of investing all the money in the bank would be $591.

Net opportunity cost is used by some people to compare two alternatives. Net opportunity cost is defined as the difference between what is invested in and the best alternative that is not chosen. In the above example, the net opportunity cost of putting all the money in the bank would be the difference between $591 (from the most profitable investment) and $530 from the bank, or $61.

Effects of Opportunity Cost on Business Decisions

All business decisions involve limited resources: land, labor, and capital. Each business must be able to achieve the proper mixture of these resources to earn a profit.

Resources are limited because of opportunity cost. More of a resource may be available to a company, but economically, it may not be in the company's best interest to add that resource. Investing money, labor, or land in another enterprise may prove more profitable.

For example, a manager may have the time and labor to paint the business' building every year, but the company's capital might be better spent on advertising and publicity. That use of the money

Table 5.1 - Investment Opportunities

Unit of Money	Lawn Service	Livestock	Bank
1	110	115	106
2	125	120	106
3	112	121	106
4	105	105	106
5	98	95	106

may enhance sales, something a paint job is less likely to accomplish.

Another reason why resources are limited is that several businesses are competing for them. Only a limited amount of suitable land is available. Labor can become limiting as businesses borrow money, causing rising interest rates, which make it less profitable to borrow money.

The manager's job is to find the combination of resources that best suits the business's needs.

Failure to Consider Opportunity Cost

Times do change, and successful managers change with them. What was considered practical and economical just 20 years ago may end in failure today. The real question today is, how can the manager stay in control of the situation?

If a manager fails to consider the opportunity cost of a decision, the opportunity to make a greater profit may be missed. By staying aware of opportunity cost, the manager hopes to avoid costly mistakes that cut into profit.

Measures Used to Represent Opportunity Cost

Since nearly all resources become limited at some time, managers need some way to represent opportunity cost of separate investments.

When the opportunities available require different amounts of investment, they are measured by looking at the rate of return on investment (ROI). ROI can be used to compare investments because it expresses the measure of return as a percentage. For example, if investment A returns $700 for a $600-dollar investment, there would be a gain of $100. If investment B returns $1,100 for $1,000 invested, it would also have a return of $100. Which is the best investment? They both return $100. However, because investment A has a return of 100/600, or 16.7 percent, and investment B only returns 100/1,000, or 10 percent, investment A is the best choice (16.7% > 10%).

When different opportunities require the same amount of investment, net returns are often used. Recall Table 5.1 presented earlier in the lesson. Net returns were used with each level of investment to determine the most profitable mix of investments. Because all investments are made in equal units, converting to ROI is not necessary to determine which investments are most profitable.

Summary

All decisions have some costs associated with them, and the opportunity cost incurred need to be considered. Opportunity cost is the return on the best alternative not selected. The rate of return on investment is a good indicator of which alterative is the best choice. All decisions that involve the use of scarce resources are affected by opportunity cost.

Credits

Bacon, Kevin, Nick Boren, and Van Kirkwood. *Agricultural Management and Economics (Student Reference).* University of Missouri-Columbia: Instructional Materials Laboratory, 1988.

Lesson 6:
Major Markets For Price Discovery in Agribusiness

Many agribusinesses are affected by the trading that takes place in the commodities market or stock market. Commodities exchanges are markets in which agricultural goods like grains and livestock and contracts for their future delivery are bought and sold. Stock exchanges are markets for the purchase and sale of shares of stock.

Major Markets for Price Discovery

The major market for price discovery for agricultural products in the United States is the commodities market, where cash commodities and contracts for future delivery are traded. The oldest commodities exchange in the United States is the Chicago Board of Trade. Other large exchanges are located in New York, Kansas City, and other cities across the country.

In the agricultural price discovery system, prices are constantly being rediscovered. Price discovery is the process by which buyers and sellers arrive at a specific price for a given lot of produce at a given location. Price discovery provides an estimate of supply and demand and of the market clearing price. It is different from price determination in that the price is not based on the general principles of supply and demand. Instead, the equilibrium price target must be discovered for each transaction in the marketplace based on the bargaining power of the buyers and sellers and what they believe the supply, demand, and price will be tomorrow and months into the future. The price that is discovered will not necessarily equal the market clearing price that is determined by supply and demand.

The commodities market allows the price discovery system to function by providing an organized marketplace for buyers and sellers of agricultural goods. The exchanges also provide uniform rules for trading, delivery, and payment, and they collect and distribute price information to the public. The commodities market thus provides the means for price discovery to take place.

How Agribusinesses Utilize Commodity Markets

Producers and agribusinesses use the commodities market to protect themselves against price changes. Agribusinesses such as grain elevators that warehouse storable commodities use the commodity markets to protect against price decreases that may occur during the time that the grain is being stored. Agricultural producers use the commodities market to protect the price they will get in the future while their crops are still in the fields or livestock are still in the pastures or feedlots. Agribusiness manufacturers and processors that purchase raw agricultural products use the commodities market to purchase the raw materials they need at the lowest possible price.

Another major participant in the commodities market is the speculator. A speculator is someone who is not directly involved in agribusiness and is not interested in buying or selling the actual agricultural products themselves, about which he or she generally knows little or nothing. The speculator is concerned only with selling those products at a higher price than that at which they were purchased. A trader is speculating when he or she holds a market position in anticipation of a favorable price movement that will generate profits. At times speculators do up to 90 percent of the trading that goes on in the commodities market. The addition of speculators to the commodities market creates a very competitive (extremely active) market.

Speculators affect agribusiness because they aid in discovering the price of agricultural products. If speculators believe that crops will be poor and a shortage will occur, prices for futures contracts will go up. If speculators believe that crops will be good and a surplus will be produced, prices for futures contracts will go down. Speculators' expectations of supply and demand therefore affect price.

Producers, agribusinesses, and speculators trade contracts for the purchase and sale of agricultural commodities for future delivery. A futures contract is a legally binding agreement made on a futures exchange to buy or sell a commodity. The contract specifies the quantity, quality, time of delivery, and price of a commodity. To understand how futures contracts function, certain terms must be understood.

Hedging - Hedging is a means of managing price or market risk by taking a position in the futures market that is the opposite of that held in the cash market. If a trader purchases a contract to buy, taking an opposite position would involve purchasing a contract to sell--the opposite of the initial or opening position. Taking an opposite position is also

Figure 6.1 - Futures Contract

DATE	CASH	FUTURES	BASIS
December	Expected hedge purchase price = $63.10/cwt.	Buy March 1 feeder cattle futures @ $65.60/cwt.	Expected basis = -$2.50/cwt.

referred to as offsetting a position. If a trader does offset his or her position, he or she is out of the futures market. All of this trading activity generally occurs without traders actually having any of the commodity in their possession.

Imagine that you are a trader and you purchase a contract to buy 5,000 bushels of corn at $2.35 a bushel. The next month the price of corn goes up to $2.50, and you decide to get out of the market, since you never really wanted the corn. So you buy a contract to sell the corn at $2.50, taking an opposite position. You make money on the difference in price, and never actually have any corn in your possession.

Basis - The basis is the difference between the local cash price and the price of the expiring futures contract. Since the local basis reflects the supply and demand conditions of that area, the basis may vary from one locality to another; it may also vary from day to day at a given location. The basis is derived from how far the commodity will have to be shipped to market. For example, suppose a futures contract is made in the Chicago exchange for a price of $70.00. The commodity must be shipped from Iowa at an estimated cost of $2.50. The cash price in Iowa will be $67.50. The basis is the $2.50 difference. The basis for grains can be expected to narrow (decrease) during the market year.

Long - Buying a futures contract without closing out one's position through an offsetting sale or by taking delivery.

Short - Selling a futures contract without closing out one's position through an offsetting purchase or by making delivery.

Long Hedge - A term referring to buying a futures contract to offset the risk of a price increase on an upcoming cash commodity purchase.

Short Hedge - A term referring to selling a futures contract to offset the risk of a decline in prices on an upcoming cash commodity sale.

This terminology may be somewhat confusing to people who are unfamiliar with the operation of the commodities market. An example of a long hedge is provided below to help illustrate the concept.

EXAMPLE: Mark is the manager of a livestock feedlot. He is concerned that the price of feeder cattle may rise and decides to purchase a futures contract in December to determine the maximum price he will have to pay for feeder cattle in March. Once he purchases the futures contract, Mark will not be able to purchase feeder cattle at a lower price if prices decline. Instead, he will have to pay the cash market price plus or minus the basis at the time he actually buys the livestock in the cash market and offsets the futures contract. Mark buys a March contract with the terms described in Figure 6.1.

When it is time to purchase the feeder cattle in March, futures are trading at $71.00/cwt. The local

Figure 6.2 - Futures Contract with a Rise in Prices

DATE	CASH	FUTURES	BASIS
March	Cash purchase price = $68.00/cwt.	Feeder cattle futures sell March 1 @ $71.00/cwt.	Realized basis = -$3.00/cwt
		Gain = $5.40	Basis improvement = -$0.50

CASH PURCHASE PRICE - FUTURES GAIN = REALIZED HEDGE PRICE
$68.00 - $5.40 = $62.60/cwt

Figure 6.3 - Futures Contract with a Decrease in Prices

DATE	CASH	FUTURES	BASIS
December	Expected hedge purchase price = $63.10/cwt.	Buy March 1 feeder cattle futures @ $65.60/cwt.	Expected basis = -$2.50/cwt
March	Cash purchase price = $61.00/cwt.	Feeder cattle futures sell March 1 @ $63.00/cwt.	Realized basis = -$2.00/cwt
		Loss = $2.60	Basis narrowed = +$0.50

CASH PRICE + FUTURES LOSS = REALIZED HEDGE PRICE
$61.00 + $2.60 = $63.60/CWT

cash market is at $68.00/cwt. When Mark offsets the hedge by buying a futures contract to sell and purchasing the feeder cattle in the cash market, he obtains the information oultined in Figure 6.2.

Mark was right in believing that cattle prices might rise, and by hedging he protected himself against the rising prices. He purchased the cattle at the higher price of $68.00/cwt but gained $5.40 by hedging in the futures market. Mark's realized hedge price is $62.60/cwt., which is 50 cents better than he expected because of the improvement in the basis.

Mark did not buy the cattle on the futures contract but at the local cash price. The futures contract was used only to protect him from rising prices. He bought the cattle and then offset his position in the futures market by selling the contract. Mark thus bought long and sold short and gained a realized hedge price of $62.60.

What would have happened if cattle prices had dropped? Suppose the futures are trading at $63.00/cwt. and local cash price is at $61.00/cwt. How will this change the realized purchase price?

Mark would have done better not buying a futures contract, even though his realized price was only 50 cents more than he expected.

Another way to protect against price changes in the future is by using agricultural options. Options are contracts that can provide insurance and marketing flexibility for producers and agribusinesses. An option is used only if prices are in the business's favor. It gives the owner the right, but not the obligation, to buy or sell a futures contract at a certain price for a certain period of time. The price that must be paid for these options is termed the premium. The premium is determined by what the buyer and seller believe the commodity is worth. The person or persons who sell the option are willing to take the risk of a change in the price of a commodity for the amount of the premium.

The guaranteed price at which the futures contract can be bought or sold is called the strike price. A call option conveys the right to purchase a futures contract at a designated strike price. A put option conveys the right to sell a futures contract at a specific strike price.

The buyer of a futures option has three choices: (1) exercise the option, by taking a buying or selling position in the futures market; (2) allow the option to expire without using it and lose only the premium; or (3) offset the original purchase by selling the option. Like the futures contracts, options are traded through commodity exchanges. An example of options trading is provided below.

EXAMPLE: Suppose Beth, a feedlot manager, thinks that corn prices are going to rise and wants to protect herself from price changes without hedging in the futures market. She purchases a call option for 5,000 bushels of corn at a guaranteed price of $3.50 per bushel within two months of the purchase of the option. Beth pays a premium of 5 cents per bushel, $250.00 (5,000 × .05). When Beth needs to purchase corn, the price of corn is $3.60. She purchases the corn at the local cash price and then exercises her option. The option is now worth 10 cents per bushel ($3.60 - $3.50 = .10). Beth has saved five cents per bushel by purchasing the option as shown in Figure 6.4.

Figure 6.4 - Returns on an Option

CASH PRICE - OPTION PREMIUM + OPTION GAIN = REALIZED PRICE

$3.60 - .05 + .10 = $3.65

If the futures price were less than $3.50, Beth could have allowed the options contract to expire and purchased the corn at the lower cash price. Her only loss would have been the $250 originally paid for the option.

Every trader in the commodities market should recognize the opportunities for gain and the possibilities of loss. For every dollar that someone gains in the commodity market, someone must also lose a dollar. Total gains in the commodities market are equal to total losses.

The Stock Market's Role in Agribusiness

While the commodities market deals directly with agricultural products, agribusinesses may also operate in the stock market. The stock market plays an important role in raising capital for agribusiness corporations. Selling shares of stocks through the stock exchange provides the means for corporations to raise money for starting and expanding their operations. The exchanges also provide places for investors to sell their shares to other individuals if the need arises.

Individuals or other companies that purchase stock are called shareholders or stockholders. They receive certificates called shares that indicate the number of units of stock that they have purchased. The shares of stock entitle stockholders to a share of the profits of the corporation. The amount that is paid to a shareholder is called a dividend. Dividends are based on the profits of the corporation. The value of the stock may go up or down, depending on the corporation's profits or expected profits.

The two main categories of stock sold by businesses are common and preferred. Preferred stock takes precedence over common stock in payment of dividends. Financial losses can therefore be greater with common stock than with preferred. Dividends for preferred stock are guaranteed in many cases.

Summary

Price discovery for U.S. agricultural goods takes place primarily in the commodities market. Producers and other agribusinesses use these markets to protect themselves against changes in the price of a commodities by purchasing and selling futures contracts and options. Agribusinesses also utilize the stock market by selling shares to raise funds for starting or expanding their businesses.

Credits

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Lesson 7:
Government and the Economics of Agriculture

Throughout U.S. history, the economics of agriculture and the economy of the United States have been closely connected. The government recognizes that agriculture strongly affects the overall economic condition of the United States, and the agricultural industry knows that government policies affect the economics of agriculture. The government has controlled prices, created policies to limit production, and used agriculture to stabilize the economy of the United States. Some policies have been very controversial, while others have been widely accepted as vital to maintaining a safe and adequate food supply in the United States.

Government Involvement in Agriculture

The reasons for government involvement in agriculture have changed over time, depending on the particular political, social, and economic environment of the nation. For example, one reason the government has found it necessary to become involved in agriculture is to oversee the safety of the food supply. It has intervened to ensure food safety due to increasing public concern in recent years over such things as sanitation, additives, and nutritional values of foods.

Another reason the government has intervened in agriculture is to ensure an adequate food supply. The government has aimed at expanding production. Projects funded by the government for irrigation, drainage, research, and agricultural extension education have increased productivity. Since the 1970s, the government has been increasingly concerned with protecting the environment to ensure the capacity of agriculture to produce in the future. Programs and special funds supported by the government have been developed to conserve the soil and ensure its productivity for future use. The U.S. government has also supported and funded programs for conserving water and preserving prime farm land.

The government has expanded its involvement in the export of food since the 1970s. One of its goals has been to increase export earnings. It has also used the exportation of food and fiber as a tool of foreign policy. Beyond supplying food to other nations, agricultural exports are used to maintain good foreign relations and as bargaining chips in international diplomacy.

One of the most costly reasons the government became involved in agriculture was to regulate prices and support farm income. The government formed storage programs in the 1970s to remove surplus commodities from the market to stabilize prices. It has used land set aside programs and direct payments to producers to support farm income.

Government Impact on Agriculture

In developing programs to meet all these different concerns, the government has had a huge impact on the agricultural industry. The industry has had to adapt itself to this intervention, which has not always been to its benefit.

The government's attempts to ensure the safety of the food supply have had both a positive and a negative effect on the agricultural industry. The banning of certain herbicides and insecticides has decreased production through the loss of crops to uncontrolled weeds and insects. The government has regulated processing facilities to ensure sanitation and to eliminate the dumping of waste. These regulations have improved food safety but have also increased production costs and the cost of agricultural commodities. They have had the side effect of forcing many small producers out of certain areas of agricultural production.

Government policies to expand the food supply have increased productivity. Government-funded research has resulted in better farming methods, such as terracing and no-till farming, that have increased production per acre. Irrigation projects in the western United States, particularly in California and along the Colorado River, have made once unproductive land fertile.

Government conservation programs have had a positive impact on the environment. Soil and water conservation is one of the largest areas of government involvement in agriculture. The government required producers to file a conservation plan to participate in federal programs like the set-aside program, in which producers agreed not to plant crops on a certain portion of their land. The Conservation Reserve Program (CRP) pays producers not to grow crops on land entered into the program. Soil conservation measures have made it possible to save the productive topsoil and increase yields.

The increased productivity caused by government involvement has increased exports, generating more profits for the agricultural industry. Agricultural producers can provide more food and fiber products than are needed to meet domestic demands. The agricultural industry produces commodities at prices that make them very competitive in international markets.

Storage programs to control the price of agricultural products helped agricultural producers during times of high production. They also encouraged agricultural producers to depend on government intervention to correct the market rather than make changes themselves to meet the demands of competition. If an automobile manufacturer produces too many cars, the government does not buy the excess cars to create a shortage and raise the price. The manufacturer is forced to lower the price to clear out the excess inventory. If a manufacturer is unable to sell the product and make a profit, the company will go out of business, and other manufacturers of automobiles that can compete successfully will benefit. As the government reduces agricultural support programs, producers will face the task of making a profit in a competitive market, and some will be unable to survive.

Agricultural Prices and the Government

Price is a primary tool for rationing in a market economy like that of the United States. When meat or bread prices rise, consumers see the purchasing power of income decline. Some consumers are forced to make do with less. The extent to which citizens of the United States are affected when food prices fluctuate gives the government justification to make food production a concern of public policy. In the past, the government has used four methods to control the price of food directly.

The federal government has instituted price controls in times of military conflict and under peacetime conditions of high inflation and declining wages. For example, during and after World War II, shortages made it necessary to ration goods. Price controls were used during the shortages to prevent inflation and windfall profits by producers. President Nixon also used price controls in 1971 in a program designed to deal with inflation and unemployment. It consisted of a 90-day freeze on most prices and wages. Retail food prices were also frozen, but farm commodity prices were not, and they increased. Because commodity prices had been so low, food prices stabilized during the freeze. After Nixon lifted the freeze and concentrated on controlling profit margins in 1972, food prices went up. However, food prices went up only 4.3 percent, while commodity prices had gone up 30 percent. The prices received by agricultural producers gave them a profit margin comparable to that of wholesalers and retailers.

Export controls, like price controls, have been used by the government as a solution to economic problems. The government has restricted export shipments to control the food supply and domestic prices in times of world food shortages. Restricting exports increases the food supply and lowers prices. Export controls have only been used in the short run until production could meet demand.

The government has also controlled price by reducing import restrictions. Reducing import restrictions and allowing more products to be imported increases supply and lowers prices. This action is good for consumers, retailers, and wholesalers because they have to pay less. Agricultural producers do not support this alternative because it lowers their incentive to produce and makes it difficult to decide what to produce to meet the demands of changing markets.

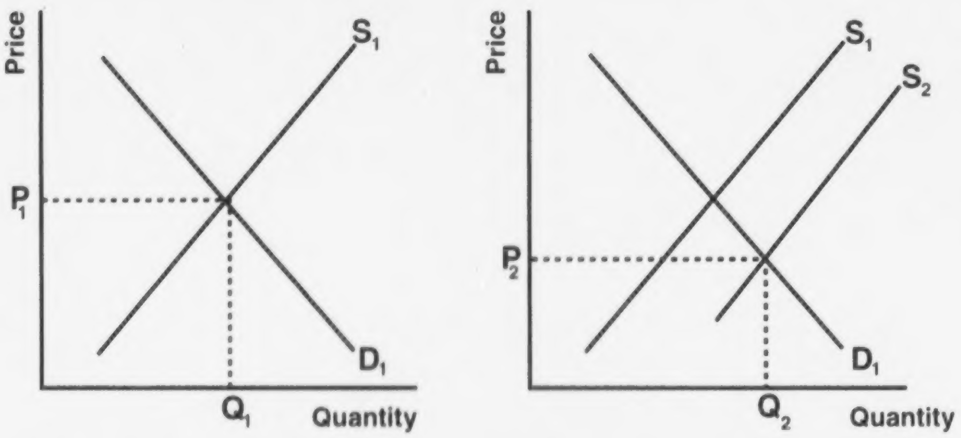
The government has strongly supported maintaining grain reserves because of their importance in controlling prices. Grain reserves can be used as an inflation-fighting tool. If grain prices rise too high, the government releases some of the reserves, which increases supply and lowers the price. If the prices drop too low, the government increases the price by increasing reserves. The timing of grain releases is an important part of using this tool effectively, because releasing grain can severely depress the price (Figure 7.1). Grain reserves provide the only means by which the government can control grain prices without influencing future production decisions.

Summary

In the past, the government has been involved in agriculture for various reason, including insuring an adequate food supply and regulating agricultural prices. Four methods have been used by the government to control the price of food: instituting

Figure 7.1 - Effects of Releasing Grain Reserves

If corn prices are high:



Price *before* the release of corn from government reserves

Price *after* the release of corn from government reserves

price controls, restricting exports, reducing import restrictions, and controlling grain reserves.

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Lesson 1:
Managing Financial Resources

Planning for the future requires more than setting educational or career goals. A complete financial plan takes into consideration these goals and needs and includes a plan for paying for them. A financial plan can help an individual manage his or her money so that personal and financial goals can be reached.

The Importance of Financial Planning

Financial planning is the process of defining goals and developing and implementing a plan to finance them. Putting together a financial plan is important because it reveals how much money is received and enables the planner to monitor spending. This information can then be used to manage money to allow an individual to achieve his or her goals. Meeting goals involves managing money for personal needs, such as food, clothing, and housing. Using a financial plan to manage money also permits an individual to plan in order to obtain those things he or she desires, such as an expensive car, or a special vacation.

The Importance of Goals and Objectives

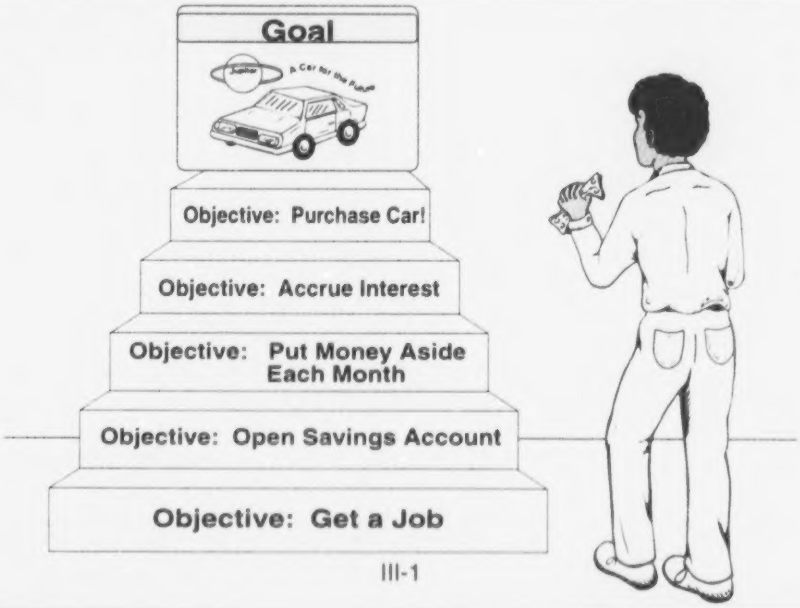
A goal is a statement of what an individual wants to accomplish both personally and financially. Goals give direction to the use of financial resources. Goals are an important part of the financial plan, because they indicate where finances will be needed. A person might have the goal of saving enough to make a down payment on a car or buy breeding stock to start an agricultural production business. Achieving these goals will give the individual great satisfaction and likely stimulate more goal setting and more financial planning.

Objectives are the steps necessary to achieve a goal (Figure 1.1). They outline the details that will make a goal a reality. The value of objectives in a financial plan is that they allow the individual to plan the use of financial resources and measure his or her progress toward a goal.

Steps in the Financial Planning Process

The first step in financial planning is recording a projection of how much money will be received. Income from jobs may be paid weekly, biweekly, or monthly, while other income may be received only once or twice a year. A record should be kept showing when money will be received and the source and amount of the money. Any financial plan must take into account the difference between net income and gross income. Net income is the actual amount of money that will be received after any deductions (e.g., income tax, Social Security).

Figure 1.1 - Goals and Objectives


Goal
A Car for the Future
Objective: Purchase Car!
Objective: Accrue Interest
Objective: Put Money Aside Each Month
Objective: Open Savings Account
Objective: Get a Job

The second step in the financial planning process is making a list of wants and needs and using it to determine goals and set objectives. When making a financial plan, needs, things necessary for survival, form the basis of the plan and should be considered first; wants, or those things that are desired to make life more comfortable, are secondary in importance.

The third step in a financial plan is to compare the amount of money received with the expenses associated with wants and needs. In this step, a distinction should be made between short-, intermediate-, and long-term financial goals; the amount of money received will help to determine the time frame for achieving the goal. A short-term goal focuses on immediate satisfaction of wants and needs, with objectives to be satisfied in a one- to four-week time frame. An example of a short-term goal is to set enough money aside, after meeting personal needs, for taking a weekend trip or going out for dinner and a movie. An intermediate goal focuses on a somewhat longer period: two to twelve months. Some intermediate goals would be saving to purchase a new appliance, piece of furniture, or stereo. A long-term goal focuses on delayed gratification, with objectives taking a year or more to satisfy. Long-term goals may include financial planning to purchase a car or setting aside money for educational needs. Short-, intermediate-, and long-term goals are based on income, and income is limited to the money received. A financial plan can help an individual to balance income and spending so financial obligations and personal goals can be met.

The fourth step in financial planning is to implement the financial plan. With the information that has been accumulated, a plan can be developed that shows how the money received is to be spent to achieve goals. The plan should also monitor how money is actually spent. The person putting together the financial plan should record how much money is received, indicate how much money is to be spent, and then track the amount of spending.

The final step in the financial planning process is to monitor the plan and make adjustments if necessary. No plan is perfect, and sometimes adjustments must be made. Unexpected expenses may make it necessary to rethink decisions about wants and needs. Since meeting needs is the basis of the plan, adjustments may only be made to wants. Making adjustments does not necessarily eliminate important goals, but it may change the time frame in which they are accomplished. The ability to adjust the plan should only increase an individual's confidence in making decisions and taking action.

Education, Experience, and the Financial Plan

A financial plan is based on income, and education and experience affect earning potential. Obtaining an education and gaining experience in one's chosen field are therefore important to consider in financial planning. Both are investments made to increase future income.

Education is an important factor in financial planning. Since a college or trade school education may be quite expensive, education requires financial planning. However, the knowledge gained is an asset that often allows an individual to earn more income than he or she would without it, and these earnings are usually greater than the expense of the education. A larger income permits greater freedom in financial planning because more money is available to satisfy wants.

Experience also affects financial planning. The skills obtained through experience on the job can have a dramatic effect on earning potential. Generally, the more experience an individual has, the more he or she can be expected to earn.

Managing Company Resources

Like individuals, companies engage in financial planning. Employees may play a role in managing the company's resources by monitoring job-related expenses that will be paid for by the company. For example, transportation expenses involved with the business may be paid, or a company car may be given to the employee to be used for job-related travel. A company may also pay for other traveling expenses, such as lodging, food, or entertainment for clients. These resources must be managed separately from personal finances, since they are a part of the company's plan for reaching its business goals and objectives.

Managing company resources well will help the company reach its goals for profit, and a profitable business may offer benefits to its employees. For example, they are more likely to experience job stability. Employees also benefit due to greater opportunities for advancement and increased earnings.

Summary

Financial planning involves recording money received and spent and using this information to plan how to meet personal and financial goals and objectives. The financial planning process involves five steps: listing the money received, listing wants and needs and developing goals and objectives, comparing the amount of money received to the costs of wants and needs, implementing a financial plan to control spending, and monitoring the plan to make adjustments if necessary. The entire plan is affected by education and experience, both of which may increase earning power. On the job, employees may have to manage money as well, since company resources paid to employees for business expenses reflect a part of the company's financial plan given to employees to manage.

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Lesson 2:
Developing a Budget

A budget can be a great planning tool that enables an individual to monitor his or her financial status. It can help a person take control of his or her future because it shows the amount of money available for purchases. A budget can also be an aid in learning to live within one's income.

The Importance of a Budget

A budget consists of two parts. The first part shows the expected income for the period, and the second part shows the planned expenditure of that income. In this way, a budget becomes a forecast of income and expenditures for a specific period of time.

As a record of expected income and expenditures, a budget can be used to monitor spending. At the end of the budgeting period, the plans made for spending income can be compared to actual spending. This information allows an individual to make changes in the amount or type of spending if necessary.

As a planning document, a budget enables individuals, households, businesses, and even governments to set priorities and monitor progress toward certain goals. For example, an individual may budget to set aside income for educational needs or a down payment on a new car. Businesses use budgets to ensure that outlay is less than income so that a profit is realized that can then be used for such things as expanding the business or paying dividends to stockholders. The most complicated budgetary process is that of the government, which plans the collection and expenditure of the monies needed to carry out the social, military, and economic policies of an administration.

Finally, a budget can help an individual to meet unexpected expenses when they occur. In preparing a budget, setting aside savings is important not only for meeting budget objectives but also for providing a surplus of money to meet unplanned expenses. If sufficient money is available, the planned budget can still be carried out in spite of those expenses, but if not, changes must be made in the budget based on needs and wants. Delaying the purchase of items that are desired rather than needed, like a new stereo or car, will be necessary. Knowing how to distinguish between needs and wants and being able to adjust a personal budget makes it possible to continue to achieve financial objectives and goals, even if they may be delayed by unexpected expenses.

Credit and Personal Finances

When planning a budget, a person should remember to include his or her use of credit. Credit is the transfer of money on the promise of repayment at some future date. Credit cards and bank loans are two types of credit.

Credit must be taken into consideration in short-, intermediate-, and long-term financial management, because money must be paid back to the creditor out of future income. Paying back the money borrowed may take months or years. Therefore, an individual should be cautious when using credit to make a purchase. Making many purchases on credit can create a huge financial burden for the future.

Interest is the money paid on money that is invested or borrowed. It is usually a percentage of the amount borrowed when using credit. The cost of interest should be included when calculating the total cost of an item. If it is possible to pay cash for that item, credit should not be used. Avoiding interest charges saves money, and saving money makes more money available to meet other objectives and goals.

If managed properly, however, credit can be of great benefit. Purchasing on credit allows people to obtain things that are needed immediately even when cash is not available and then use them while paying for them over a period of time. Credit also makes it possible to buy very expensive items, like a house, for which it would be difficult to save enough money.

The Financial Implications of Debt

Because credit is often easy to obtain, the temptation to use credit to "buy now and pay later" may be difficult to resist. However, payments on credit may become a liability. Poor use of credit can lead to months or even years of burdensome debts. Going into debt can have a number of negative consequences.

Accumulating large debts may hamper future credit purchases. Credit card companies and banks are not willing to lend money to those people who have shown themselves to be unable to pay off their debts. When buying something on credit, plans should be made to make payments in a timely manner.

Debt may make it difficult to pay for those things needed for survival. Assuming too many financial obligations at once can lead to monthly payments so large that not enough financial resources are left to meet essential living expenses. If making purchases on credit makes it hard to buy necessities, using credit should be avoided.

Failure to meet financial obligations can lead to other problems. Credit collectors may contact employers if payment is not received. The debtor's wages may then be garnisheed. Garnishment is the legal practice of taking a specified amount of money from earnings in order to repay a creditor. A debtor who cannot repay the money borrowed may be forced to declare bankruptcy. His or her personal assets will be seized and sold to repay creditors.

Debt is not always a bad thing, however, if credit is managed properly. For example, many students have to borrow large amounts of money to finance their education after high school. This use of credit creates the potential for a larger income in the future. Most student loans do not have to be paid back until the student has graduated and found a job, and payments can be made over a period of time. In almost all cases the return on the investment is far greater than the amount of debt. In addition to paying for further education, the use of credit allows individuals to establish that they can handle credit responsibly. Being in debt and showing that they can make the necessary payments can make it easier for them to obtain credit later.

Some guidelines for using credit are given below.

Credit should be used in some situations:

- To help purchase items that are needed to establish a household, such as a refrigerator or furniture.
- When a true emergency arises and cash is not available.
- If money is needed for education. Borrowing money for an education usually pays off in increased income for the borrower.
- When the price of a necessity is increasing quickly and money can be saved by using credit

Credit should not be used in the following instances:

- When buying something on impulse because the payment terms seem so easy that they will not be a problem.
- When buying something just to boost morale or increase status.
- In expectation of future salary increases.
- When purchases strain cash reserves and wreck a budget because payments are too high.
- For daily living expenses.
- When what is bought will wear out before the last payment is made.
- Anytime that no reasonable prospect for repaying the amount exists.

Guidelines for Budgeting

Certain guidelines can be followed when setting up a budget. These guidelines indicate how much of an individual's monthly income should be spent on various expenses. Different standards may be applied when determining what percentage of monthly income should be spent on a particular expense, but some possibilities are listed below. If spending exceeds these percentages, individuals should examine their budgets to make sure their expenditures are appropriate.

- Housing - 20 to 30 percent
- Utilities - 5 percent
- Transportation - 5 to 15 percent
- Food - 10 to 20 percent
- Savings - 10 percent
- Clothing - 5 to 10 percent
- Entertainment - 5 percent
- Installment debt - 5 percent and up

Summary

A budget is an important tool for financial planning because it provides a forecast of income and expenditures for a specific period of time, allows spending to be monitored, enables a person or group to set goals for spending, and helps meet unexpected expenses. When planning a budget, monitoring the use of credit is important. If managed properly, credit can benefit an individual by allowing him or her to purchase and use an item even if cash is unavailable. However, excessive credit purchases and high interest payments may create debts that hamper future business purchases, make it difficult to pay for necessities, and even lead to the garnishment of wages and bankruptcy.

Credit

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Lesson 3:
Credit

Over a lifetime, an individual will use credit to buy many items. Establishing the foundation for receiving credit through the proper management of finances is therefore very important. Understanding the types and sources of credit available will allow a person to make the appropriate choices when he or she wants to purchase something using credit.

Credit History

An individual's credit history is a record of how he or she has managed finances in the past. The individual's ability to obtain credit is influenced by his or her credit history. A good reputation for managing finances can build a good credit history and make more credit available, which, if used wisely, will build an even stronger credit history. However, a record that shows poor management of finances can prevent a person from getting credit, and it can take many years to rebuild a credit history. If an individual manages his or her finances so that spending does not exceed income, a financial institution will be more confident that he or she will be able to make the necessary payments and will be more likely to grant credit.

Establishing a Credit History

An individual establishes a good credit history by showing that he or she is dependable and responsible and can manage finances. This foundation demonstrates to a lender that an individual can be trusted to pay back money that is borrowed.

A good start to establishing a credit history is to set up a checking or savings account as soon as possible. Once a savings account is set up, it should be managed so that it earns interest on money that is not needed for short-term expenses. The balance of a checking account should be kept above the minimum so that no service charges are issued for writing checks. A well-managed account indicates financial responsibility and is a stepping stone to establishing a good credit history.

Establishing a good credit history can be done by simply paying the bills for everyday living expenses on time. Paying rent and utility bills promptly shows that an individual is financially responsible. Using credit cards wisely and with caution can also help establish a good credit history. Credit cards on which the balance is paid off monthly can help to show lenders that an individual is responsible.

Another way to establish a credit history is through small loans. Responsible repayment of small loans provides a good opportunity to establish a solid credit rating. A teenager can build a credit history by having an adult who has already built a good credit history, such as a parent, co-sign for a loan. The teenager then has the chance to show a lender that he or she is responsible. If the loan is paid back promptly, he or she establishes a good reputation with the lender as well as a credit history to show future lenders that his or her finances were properly managed in the past. It can help an individual obtain the credit needed to borrow money to buy those items with which to set up a household.

The same things that can build a good credit history can create a poor credit history if managed badly and may cause an individual to be denied credit. Writing checks when an account has insufficient funds shows poor financial management. Failing to make payments on a co-signed loan can ruin an individual's credit history, as well as that of the person who co-signed. Maintaining balances on credit cards from month to month shows poor financial management.

Kinds and Sources of Credit

Few individuals have enough cash to buy all the things they need, so they must borrow money. They must know the kinds of credit that are available and the sources of credit to choose the correct type for their needs. An individual should always consider all the options before making a decision about credit.

Credit can be categorized into two basic types based on the length of time the money is needed. Generally, the intended use of the loan will help determine which type is chosen.

Current credit is money borrowed for a term of less than a year. Examples of this short-term credit include purchases made with credit cards, loans for medical bills, and emergency loans for auto or home repairs. The loan is generally paid back in monthly installments.

Noncurrent credit is money borrowed for more than one year. This long-term credit may be used to purchase a car, buy furniture or appliances, or pay for educational expenses. It can also be used to buy a home or land or to purchase or start a business. The loan is usually paid back in monthly installments.

Some loans require security. A secured loan is a loan in which an asset--either the item being purchased or something else owned by the borrower--is put up for collateral. The collateral is pledged or mortgaged by the borrower to ensure repayment of the money. If the money is not repaid, the asset may be seized and sold to pay the loan. Examples of collateral include a car used to secure the loan needed to purchase it and a home used as collateral to obtain the money needed for remodeling. In contrast to a secured loan, an unsecured loan, which is sometimes called a signature loan, does not require collateral and is based on a good credit history. Secured loans usually have lower interest rates than unsecured loans.

Repayment schedules vary, depending on the type of credit used. Some types may require a single payment that includes the principal and interest in one lump sum. For instance, lump sum payments are made on credit cards that require the balance to be paid on a monthly basis. A loan that requires a lump sum payment may be taken out by individuals or businesses if they know that larger amounts of income will be received at a particular time of the year. An agricultural producer, for example, may borrow money to produce crops and pay the entire sum back when crops are harvested. The most widely used method for repaying loans, however, is with a repayment schedule in which principal and interest are to be paid back on a periodic basis. This schedule may be set up on a monthly, semi-annual, or even yearly basis.

An individual may borrow money from a number of different sources. The amount, loan period, purpose for which the money is borrowed, repayment method, and type of collateral necessary to secure the loan will vary with each source.

Commercial banks - Commercial banks offer short- and long-term loans that require a single payment or periodic payments of interest and principal. Commercial banks will loan money to individuals and businesses for almost any use, including the purchase of real estate and other business and personal uses.

Credit unions - Credit unions are cooperative associations that accept savings deposits and make small loans to their members. The loans are for short- and long-term credit.

Savings and loans - Savings and loans were originally set up to provide long-term credit used to buy homes. They lend money for real estate.

Small Business Administration - The SBA primarily guarantees short- and long-term credit for small businesses.

Manufacturers and dealers - Manufacturers and dealers primarily offer short- and long-term credit to customers to buy the cars, furniture, or other products that they are selling.

Bank credit cards - Credit cards are issued by banks and allow customers to borrow money to buy goods or services. Most involve short-term credit, with payments being made on a monthly basis.

Simple Interest

When credit is used, interest is charged on the amount of money borrowed. Simple interest is interest that is paid only on the sum of money loaned, or principal. Simple interest is calculated by multiplying the principal (p) borrowed by the rate of interest charged (r) and the amount of time (t). The formula is:

$$i = prt$$

If a loan for $1,000 was taken out at 8 percent interest, the simple interest after six months would be $40.

$$i = prt$$

$$i = (\$1{,}000)(.08)(.5)$$

$$i = \$40$$

Compound Interest

When interest is calculated not only on the principal but also on the accrued interest payments, it is referred to as compound interest. The formula for figuring compound interest is as follows:

$$A = p\left(1 + \frac{r}{x}\right)^{yx}$$

In the formula, *A* is the amount of principal and interest, *p* is the principal, and *r* is the yearly rate of interest. The number of years is *y*, and *x* is the number of times the interest is compounded yearly.

Amortized Loans

Amortized loans are payed off in installments over time, with each payment covering the current interest and part of the principal. In an equal-payment plan, each payment is the same amount of money. Early payments include more interest and less capital. Interest payments decrease in later years as the outstanding principal decreases. More of the payment then goes to pay off the principal.

Lending institutions usually calculate payments on amortized loans using software designed for financial management. Amortization tables, such as the one pictured in Figure 3.1, can also be used as a quick reference for figuring payments. Suppose that $10,000 is borrowed at 10 percent interest for five years. What would the annual payments be? Look at Table 3.1. For five years and 10 percent interest, it shows a value of .2637. The annual payments would be $10,000 × .2637, or $2,637.

Summary

Building a good credit history is an important part of financial planning. Establishing a good credit history can help a person reach goals and objectives by enabling him or her to obtain more credit. Knowing the different types and sources of credit available is also important because it allows an individual to make the best choices for his or her needs.

Credits

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Figure 3.1 - Annual Payment per $1 of Loan at Given Interest Rates and Maturities (Amortization Table)

YEAR	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	1.0400	1.0500	1.0600	1.0700	1.0800	1.0900	1.1000	1.1100	1.1200	1.1300	1.1400	1.1500	1.1600	1.1700	1.1800	1.1900	1.2000
2	.5301	.5378	.5454	.5530	.5607	.5684	.5761	.5839	.5916	.5994	.6072	.6151	.6229	6308	.6387	.6466	.6545
3	.3603	.3672	.3741	.3810	.3880	.3950	.4021	.4092	.4163	.4235	.4307	.4379	.4452	.4525	.4599	.4673	.4747
4	.2754	.2820	.2885	.2952	.3019	.3086	.3154	.3223	.3292	.3361	.3432	.3502	.3573	.3645	.3717	.3789	.3862
5	.2246	.2309	.2373	.2438	.2504	.2570	.2637	.2705	.2774	.2843	.2912	.2983	.3054	.3125	.3197	.3270	.3343
6	.1907	.1970	.2033	.2097	.2163	.2229	.2296	.2363	.2432	2501	.2571	.2642	.2713	.2786	.2859	.2932	.3007
7	.1666	.1728	.1791	.1855	.1920	.1986	.2054	.2122	.2191	.2261	.2331	.2403	.2476	.2549	.2623	.2698	.2774
8	.1485	.1547	.1610	.1674	.1740	.1806	.1874	.1943	.2013	.2083	.2155	.2228	.2302	.2376	.2452	.2528	.2606
9	.1344	.1406	.1470	.1534	.1600	.1667	.1736	.1806	.1876	.1948	.2021	.2095	.2170	.2246	.2323	.2401	.2480
10	.1232	1295	.1358	.1423	.1490	.1558	.1627	.1698	.1769	.1842	.1917	.1992	.2069	.2146	.2225	.2304	.2385
11	.1141	1203	.1267	.1333	.1400	.1469	.1539	.1611	.1684	.1758	.1833	.1910	.1988	.2067	.2147	.2228	.2311
12	.1065	.1128	.1192	.1259	.1326	.1396	.1467	.1540	.1614	.1689	.1766	.1844	.1924	.2004	.2086	.2168	.2252
13	.1001	.1064	.1129	.1196	.1265	.1335	.1407	.1481	.1556	.1633	.1711	.1791	.1871	.1953	.2036	.2121	.2206
14	.0946	.1010	.1075	.1143	.1212	.1284	.1357	.1432	.1508	.1586	.1666	.1746	.1828	.1912	.1996	.2082	.2168
15	.0899	.0963	.1029	.1097	.1168	.1240	.1314	.1390	.1468	.1547	.1628	.1710	.1793	.1878	.1964	.2050	.2138
16	.0858	.0922	.0989	.1058	.1129	.1203	.1278	.1355	.1433	.1514	.1596	.1679	.1964	.1850	.1937	.2025	.2114
17	.0821	.0886	.0954	.1024	.1096	.1170	.1246	.1324	.1404	.1486	.1569	.1653	.1739	.1826	.1914	.2004	.2094
18	.0789	.0855	.0923	.0994	.1067	.1142	.1219	.1298	.1379	.1462	.1546	.1631	.1718	.1807	.1896	.1986	.2078
19	.0761	.0827	.0896	0967	.1041	.1117	.1195	.1275	.1357	.1441	.1526	.1613	.1701	.1790	.1881	.1972	.2064
20	.0735	.0802	.0871	.0943	.1018	.1095	.1174	.1255	.1338	.1423	.1509	.1597	.1686	.1776	.1862	.1960	.2053
25	.0640	.0709	.0782	.0858	.0936	.1018	.1101	1187	.1275	.1364	.1454	.1546	.1640	.1734	1829	.1924	.2021
30	.0578	.0650	.0726	.0805	.0888	.0973	.1060	.1150	.1241	.1334	.1428	.1523	.1618	.1715	.1812	.1910	.2008
35	.0535	.0610	.0689	.0772	.0858	.0946	.1036	.1129	.1223	.1318	.1414	.1511	.1608	.1707	.1805	.1904	.2003
40	.0505	.0505	.0664	.0750	.0838	.0929	.1022	.1117	.1213	.1309	.1407	.1505	.1604	.1703	.1802	.1901	.2001

Lesson 4:

Developing a Savings and Investment Plan

Developing a savings and investment plan is an important part of a financial plan. Saving money not only maintains a pool of available funds but actually increases the amount of money earned by providing additional income through interest payments. Investing money is generally riskier because investments can provide greater financial losses as well as rewards.

The Time Value of Money

The time value of money is based on the relationship of money, interest, and time. Simply said, a dollar received today is not equal to a dollar that is received in the future, because today's dollar can be put to work to produce returns in excess of the value of the original dollar. Returns accumulate due to interest, which is the payment an individual receives for letting someone else use his or her money. Over time, interest increases the value of the money originally invested. The longer the period of time the money is invested or the higher the interest rate, the more the money will earn.

Two types of interest may be paid on an investment. Simple interest is interest that is paid only on the sum of money invested. When interest is paid on not only that amount but also on the accrued interest payments, it is referred to as compound interest.

To find the value of money over time, being able to calculate the value of money in the future is necessary. The formula for calculating the future value of money is

$$FV = p(1+i)^n$$

where FV = future value, p = principle, i = rate of interest, and n = number of years. This formula enables an individual to determine the value of savings or investments in interest-bearing accounts after they have been compounded with interest for a specific period of time.

As an example, suppose Annie has $100 and is planning on investing it at 7 percent interest. She wants to know the future value of that money in 2 years.

$$FV = p(1+i)^n$$

$$\text{Future value} = \$100\,(1 + .07)^2$$

$$\text{Future value} = \$100\,(1.07)^2$$

$$\text{Future value} = \$100\,(1.1449)$$

$$\text{Future value} = \$114.49$$

The value of Annie's investment in two years will be $114.49.

Tables can also be used to determine the future value of money with compound interest. Suppose that $100 is placed in the bank at 7 percent interest for five years. What would the future value be? Look at Table 4.1. For five years and 7 percent interest, it gives a value of 1.4025. The original investment is multiplied by this number to find the future value of the money. The future value of $100 compounded at 7 percent for five years is $140.25 (100 × 1.4025).

The Rule of 72

The Rule of 72 is a simple formula that provides an estimate of the number of years it would take for an investment to double in value based on the interest rate. In the formula, *i* equals the rate of interest and *y* equals the number of years to double the investment.

$$\frac{72}{i} = y$$

Suppose that Garrett made an investment at 6 percent interest. He wants to figure out how long it will take for his investment to double.

$$\frac{72}{i} = y$$

$$\frac{72}{6} = y$$

$$12 = y$$

Garrett's investment will double in 12 years.

The Importance of Saving Money

Savings are a very important part of an individual's financial plan. The amount in savings can be a significant factor in allowing a person to achieve

Figure 4.1 - Future Value at Compound Interest (Compounded Annually)

YEAR	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	1.0400	1.0500	1.0600	1.0700	1.0800	1.0900	1.1000	1.1100	1.1200	1.1300	1.1400	1.1500	1.1600	1.1700	1.1800	1.1900	1.2000
2	1.0816	1.1025	1.1236	1.1449	1.1664	1.1881	1.2100	1.2321	1.2544	1.2769	1.2996	1.3225	1.3456	1.3689	1.3924	1.4161	1.4400
3	1.1248	1.1576	1.1910	1.2250	1.2597	1.2950	1.3310	1.3676	1.4049	1.4428	1.4815	1.5208	1.5608	1.6016	1.6430	1.6851	1.7280
4	1.1698	1.2155	1.2624	1.3107	1.3604	1.4115	1.4641	1.5180	1.5735	1.6304	1.6889	1.7490	1.8106	1.8738	1.9387	2.0053	2.0736
5	1.2166	1.2762	1.3382	1.4025	1.4693	1.5386	1.6105	1.6850	1.7623	1.8424	1.9254	2.0113	2.1003	2.1924	2.2877	2.3863	2.4483
6	1.2653	1.3400	1.4185	1.5007	1.5868	1.6771	1.7715	1.8704	1.9738	2.0819	2.1949	2.3130	2.4363	2.5651	2.6995	2.8397	2.9859
7	1.3159	1.4071	1.5036	1.6058	1.7138	1.8280	1.9487	2.0761	2.2106	2.3526	2.5022	2.6600	2.8262	3.0012	3.1854	3.3793	3.5831
8	1.3685	1.4774	1.5938	1.7181	1.8509	1.9925	2.1435	2.3045	2.4759	2.6584	2.8525	3.0590	3.2784	3.5114	3.7588	4.0213	4.2998
9	1.4233	1.5513	1.6894	1.8384	1.9990	2.1718	2.3579	2.5580	2.7730	3.0040	3.2519	3.5178	3.8029	4.1084	4.4354	4.7854	5.1597
10	1.4802	1.6288	1.7908	1.9671	2.1589	2.3673	2.5937	2.8394	3.1058	3.3945	3.7072	4.0455	4.4114	4.8068	5.2338	5.6946	6.1917
11	1.5394	1.7103	1.8982	2.1048	2.3316	2.5804	2.8531	3.1517	3.4785	3.8358	4.2262	4.6523	5.1172	5.6239	6.1759	6.7766	7.4300
12	1.6010	1.7958	2.0121	2.2521	2.5181	2.8126	3.1384	3.4984	3.8959	4.3345	4.8179	5.3502	5.9360	6.5800	7.2875	8.0642	8.9161
13	1.6650	1.8856	2.1329	2.4098	2.7196	3.0658	3.4522	3.8832	4.3634	4.8980	5.4924	6.1527	6.8857	7.6986	8.5993	9.5964	10.6993
14	1.7316	1.9799	2.2609	2.5785	2.9371	3.3417	3.7974	4.3104	4.8871	5.5347	6.2613	7.0757	7.9875	9.0074	10.1472	11.4197	12.8391
15	1.8009	2.0789	2.3965	2.7590	3.1721	3.6424	4.1772	4.7845	5.4735	6.2542	7.1379	8.1370	9.2655	10.5387	11.9737	13.5895	15.4070
16	1.8729	2.1828	2.5403	2.9521	3.4259	3.9703	4.5949	5.3108	6.1303	7.0673	8.1372	9.3576	10.7480	12.3303	14.1290	16.1715	18.4884
17	1.9479	2.2920	2.6927	3.1588	3.7000	4.3276	5.0544	5.8950	6.8660	7.9860	9.2764	10.7612	12.4676	14.4264	16.6722	19.2441	22.1861
18	2.0258	2.4066	2.8543	3.3799	3.9960	4.7171	5.5599	6.5435	7.6899	9.0242	10.5751	12.3754	14.4625	16.8789	19.6732	22.9005	26.6233
19	2.1068	2.5269	3.0255	3.6165	4.3157	5.1416	6.1159	7.2633	8.6127	10.1974	12.0556	14.2317	16.7765	19.7483	23.2144	27.2516	31.9479
20	2.1911	2.6532	3.2071	3.8696	4.6609	5.6044	6.7274	8.0623	9.6462	11.5230	13.7434	16.3665	19.4607	23.1055	27.3930	32.4294	38.3375
25	2.6658	3.3863	4.2918	5.4274	6.8484	8.6230	10.8347	13.5854	17.0000	21.2305	26.4619	32.9189	40.8742	50.6578	62.6686	77.3880	95.3962
30	3.2433	4.3219	5.7434	7.6122	10.0626	13.2676	17.4494	22.8922	29.9599	39.1158	50.9501	66.2117	85.8498	111.0646	143.3706	184.6752	237.3762
35	3.9460	5.5160	7.6860	10.6765	14.7853	20.4139	28.1024	38.5748	52.7996	72.0685	98.1001	133.1755	180.3140	243.5034	327.9972	440.7005	590.6681
40	4.8010	7.0399	10.2857	14.9744	21.7245	31.4094	45.2592	65.0008	93.0509	132.7815	188.8834	267.8635	378.7211	533.8686	750.3782	1051.6674	1469.7713

goals and objectives, because saving allocates money for the future that will allow a person to obtain both wants and needs. For example, money saved may be used to purchase real estate, pay for an education, or provide money for retirement.

Saving money for emergencies can strengthen a financial plan. Saving can make money available for unexpected expenses, such as car repairs and medical expenses, or for periods when no income is received. Being able to pay for emergencies with savings, instead of rearranging a budget or borrowing money and paying interest, allows a financial plan to continue uninterrupted. A good rule of thumb is to try to have enough money saved for emergencies to cover three months of normal spending.

The most important reason for saving money is to earn interest. In savings, the money is not only being allocated for the future but is also earning interest and growing. As more money is saved, more money becomes available through interest to be used to reach financial goals.

Saving needs to be done on a regular basis, no matter how small the amount set aside. Money received from allowances or a part time job can be placed in a savings account. Forming a habit of saving money can make more money available for investing on a larger scale. It is very important to be consistent. The amount placed in a savings account each time a deposit is made is not nearly as important as establishing a habit of saving. If possible, a good amount to set aside is 10 percent of net income.

Methods of Saving and Investing Money

A variety of different methods of saving and investing money exist. They vary by the amount of risk associated with each one. Saving money can be done by putting money in an insured savings account, buying certificates of deposit, or investing in annuities or U.S. savings bonds; little or no risk is associated with these options. More risk is associated with investing money in bonds, mutual funds, or stock.

Insured savings account - Insured saving accounts are available through banks, savings and loans, credit unions, and other financial institutions. An insured savings account can be started with a small amount of money, which earns interest and is readily available if needed for an emergency or other investments. Interest rates are lower than with other methods of saving and investing, but deposits under $100,000 are insured by the government.

Certificates of deposit - Certificates of deposit (CDs) are available through banks and some other financial institutions. They are issued for different amounts (the minimum is generally $500 or $1,000) and for different lengths of time. Money invested in certificates of deposit is not as readily available as money invested in saving accounts, since penalties are assessed for early withdrawal of the money. However, CDs earn higher rates of interest: the longer the period of time until a CD's maturity, the higher its interest rate. Certificates of deposit are insured by the government.

Annuities - An annuity is very similar to a certificate of deposit, but it is issued by an insurance company rather than a bank. They almost always pay higher interest than CDs. A penalty is assessed for early withdrawl of the money invested.

U.S. savings bonds - Savings bonds are available through most financial institutions; many companies also offer payroll deduction plans for purchasing them. The bond is purchased at an amount less than face value and grows to the face value at the maturity date specified on the bond. Interest rates are lower than those of other bonds, but the money is guaranteed by the government. Purchasing U.S. saving bonds is a good method of supporting the government.

Treasury bonds - Treasury bonds are issued by the U.S. Treasury Department. They are available in amounts from $1,000 to $1 million and mature after periods of 30 days up to 5 years. Treasury bonds are riskier than savings bonds because they fluctuate in value depending on interest rates if sold before they reach maturity. Bonds issued by the treasury generally have better interest rates than either savings accounts or savings bonds. Again, the longer the time to maturity, the greater the interest rate.

Bonds - Bonds are issued through corporations (corporate bonds) and local governments (municipal bonds). Bonds are certificates of debt that promise payment of interest on specified dates and payment of the original investment upon maturity. Interest rates are higher than those for savings accounts or savings bonds, but bonds involve more risk, because their value depends upon the financial well-being of the corporation or agency issuing the bond.

Mutual funds - Mutual funds are diversified investments that are managed professionally. Mutual funds involve investments in several different companies. They allow individual investors to pool their money to meet various investment objectives. Mutual funds are listed in many newspapers, where the price listed is the cost of one share of the fund. The amount that the share increases or decreases from the original purchase price is the amount gained or lost on the investment. While the potential for large returns exists, earnings are not guaranteed.

Futures - Futures contracts are contracts for the purchase and sale of commodities for future delivery. They are traded on the commodities exchanges. Speculating on the futures market by buying and selling contracts is risky. Speculators may not make a profit and may even lose their original investment.

Stock - Stocks represent a share of ownership in a company. The price of the share may increase or decrease, depending on the success of the company, and the amount of change is equal to the amount of profit or loss. Stock prices may be found in newspapers. Stocks are traded on the New York Stock Exchange and the American Stock Exchange. Buying stock is a risky investment, and while careful management of stocks can have financial rewards, losses may be just as large.

As indicated above, the level of interest or returns on investments depends on the type of savings plan or investment. The higher the risk is, the greater the potential return. While investing money in an insured savings account has no risk, the interest paid is low compared to the returns from other options. In contrast, stock is very risky, with no guarantee of receiving a return or even getting back the original investment; however, rewards are also potentially much greater.

Developing a Savings and Investment Program

Like the rest of the financial plan, choosing how to save and invest money requires careful thought and planning. Most plans consist of gradually building an investment program. A good start would be to open an insured savings account and then consistently deposit money in the account to earn interest.

As the amount of money in a savings account increases, the next step is to diversify. Diversification is the reduction of risk through the spreading of dollars among several different types of savings and investments, such as savings accounts, certificates of deposit, and stocks or bonds. The first step in diversification might be to purchase a certificate of deposit or a savings bond, which have greater rates of return than a savings account. As they mature, this money could be used to purchase stocks in hopes of generating even higher returns. A diversified savings and investment plan brings in additional profits while leaving some money readily available in savings for emergencies or unexpected expenses.

Diversification can also be done by purchasing mutual funds. Because mutual funds are by nature diversified investments, they provide many alternatives for investors and many different opportunities for profit. Dividends are usually automatically reinvested in the fund to generate more returns. A ready market for selling mutual funds exists if the money is needed for emergencies or unexpected expenses.

Summary

The time value of money is an important concept to remember when developing a savings and investment plan. A dollar received today is not equal in value to a dollar received in the future, because today's dollar can produce returns that are worth more than the original dollar. Saving money is important not only because additional money can be earned through interest payments but also because money will be needed to meet future goals and objectives and may be needed for emergencies. Many different methods of saving and investing money may be used to generate additional income, but a good savings and investment plan starts with placing money in an insured savings account and builds gradually into a diversified investment program.

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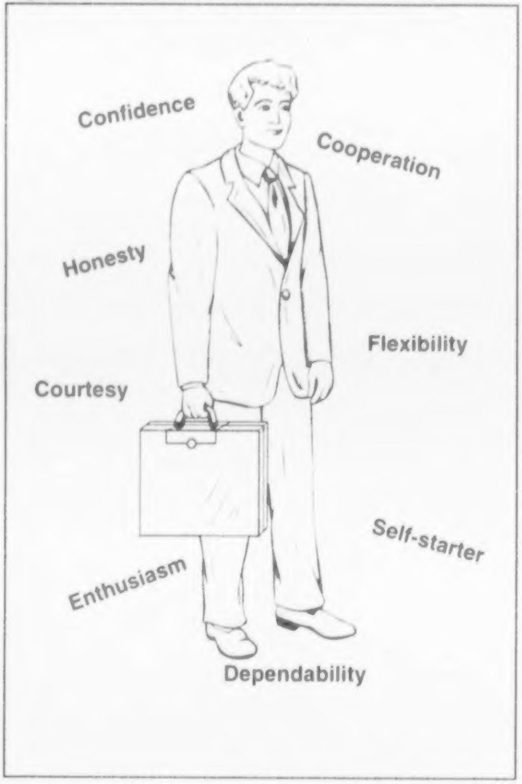
Lesson 1:
Developing a Positive Work Attitude

In order to succeed on the job, an individual must have the right attitude. An employee who displays a poor attitude toward the job and his or her coworkers is not likely to advance in a career. People often lose their jobs not because they are unable to do the work required, but because they have a negative attitude. Therefore, all employees should work on developing a positive work attitude.

Positive Work Attitude

Whether or not an individual has a positive work attitude can be determined by examining the behavior he or she displays in the workplace. A positive attitude is revealed through a combination of many traits (Figure 1.1). An employee must work on developing these traits until a positive attitude becomes a state of mind.

Figure 1.1 - Traits of a Positive Work Attitude



- Confidence - People with a positive attitude believe in their ability to do the job well. This self-confidence leads them to try to do their best in the workplace. They also have confidence in the abilities of coworkers and encourage them to do their best as well.

- Self-starter - Self-starters display initiative by doing things without being told. Self-starters learn to work well with a minimum of supervision. They use all available opportunities to learn more about assigned responsibilities and are always willing to take on additional ones. Accepting more responsibility indicates that an individual feels positive about the work that he or she is doing.

- Cooperation - The ability to cooperate with others allows an employee to get along with bosses and coworkers. Cooperation includes following the rules and procedures established by a business. A cooperative person is willing to consider the ideas of others and to help them whenever possible.

- Courtesy - Like cooperation, courtesy improves relationships with other people in the workplace. Being polite to others, showing respect for them, speaking to them in a pleasant voice, and expressing appreciation for their time and effort are all behaviors that mark a positive work attitude.

- Dependability - Following instructions, being punctual and consistent in attendance, and completing tasks on time demonstrate that a person is dependable.

- Honesty - Being truthful when giving information, keeping promises, handling company money wisely, and not wasting time on the job are all traits of an honest person.

- Flexibility - Technology and competition have made it necessary for many businesses to make changes in the way they do business. Employees who have a positive attitude are willing to learn new procedures and information and cheerfully accept change. They know that changes bring new opportunities for growth, both for themselves and the company.

- Enthusiasm - Enthusiasm is the sum of all the other aspects of a positive attitude. It is expressed through an obvious enjoyment in being at work. Sharing an enthusiasm for work with others can spread feelings of fellowship and pride throughout a business organization.

The Importance of a Positive Work Attitude

A positive work attitude is important to be successful in a career. Being confident, a self-starter, cooperative, courteous, dependable, honest, flexible, and enthusiastic creates the opportunity for advancement. If a person examines and constantly works to improve his or her attitude toward a job, he or she will be able to appreciate the job more. A sincere appreciation for the work will encourage that individual to add to his or her knowledge and skills and become a greater asset to the business. An employee who is a valuable asset is more likely to be promoted. Companies promote employees who display a positive attitude toward their jobs not only because they are always trying to improve their performance, but also because these employees spread their positive attitude to others in the company.

Developing a Positive Work Attitude

Obviously, developing a positive work attitude is necessary for success. Choosing the right career is closely connected to a positive attitude. While an individual should always display a positive attitude toward any job, being positive is easier when a career is satisfying. If a job is not fulfilling, it is that much harder to build and maintain a positive attitude.

An employee can work to improve his or her attitude. To develop a positive attitude, find people in the workplace who display the traits discussed in this lesson. Spend some time observing their behavior, and try to imitate it. Also, try to build self-confidence; have faith in your ability to do well on the job. Finally, work on improving the traits and behaviors associated with a positive work attitude. If you do not see yourself as a self-starter, for example, take the initiative and learn more about the job. Whenever mistakes are made, treat them as an opportunity to learn and become a better worker.

Perhaps the most important aspect of a positive attitude to develop is enthusiasm, because it is so contagious. Enthusiasm shown by one worker can spread through an entire organization, but a lack of enthusiasm can spread just as rapidly. Feeling and displaying enthusiasm about a job every minute of every day is a hard, if not impossible, task. Take every opportunity to smile and look for positive things that can turn a bad day into a good one. Go out to a favorite place for lunch, or find someone else who is having a bad day and try to improve his or her attitude. Efforts to increase another person's enthusiasm often have a positive effect on both people involved.

Developing a positive work attitude is far from an easy task. It takes commitment to develop it fully. However, a positive work attitude brings rewards that make it worthwhile--not only success on the job, but also a feeling of self-satisfaction.

Summary

A positive work attitude is necessary to be successful in a career. Being confident, a self-starter, cooperative, courteous, dependable, honest, flexible, and enthusiastic are all part of a positive attitude. On the job, employees must cultivate a positive attitude as a state of mind.

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Lesson 2:
Positive Workplace Relationships

Part of developing a positive workplace attitude is learning to cooperate with others in the business organization. Cooperation involves being able to work with everyone, including superiors and coworkers with diverse backgrounds, attitudes, and opinions. Following an old but still meaningful guideline for behavior--"Do unto others as you would have them do unto you"--can help people work together effectively. If positive relationships are maintained, working as a team to reach the goals of the business is possible.

Positive Relationships with Bosses

In maintaining a positive relationship with the boss, it helps to remember that his or her function is to help others complete the tasks of the organization. In the final analysis, nobody ever really works for anyone else. Instead, everyone does his or her individual part to complete the overall task. If one person does not complete his or her part of a team effort, the product or service cannot be provided. The boss's task is to help all the people of the organization work better. The boss is the worker who links together all the individual tasks and workers necessary to produce the final product. He or she solves problems that may stop or slow down the process of producing a product or offering a service to the customer. The boss helps people work more efficiently, so that the entire organization benefits.

An employee must realize that an orderly system must exist within the organization in order to bring all the tasks of a business together. A positive relationship with the boss includes respecting and following the lines of authority or chain of command. These terms refer to the order in which different positions are ranked within an organization by level of authority. If a problem exists or he or she needs guidance to complete a task, an employee should follow the lines of authority by communicating first with immediate supervisors. An employee can display respect for superiors by following rules and regulations, showing up for work on time, and working to make changes take place smoothly. He or she should also concentrate on completing tasks correctly. Finally, an employee should solve problems rather than create them. Following these guidelines will maintain order within the business and help everyone, including the boss, complete individual tasks and the overall task of the organization.

Communicating properly with the boss when problems that require his or her attention arise will help build a positive relationship. An employee should discuss problems in terms that can be measured or observed rather than in terms of personal attitudes or feelings. Employees should also discuss desired outcomes instead of simply complaining about problems. An employee should not simply complain that a problem exists and dwell on his or her feelings about the situation. Instead, he or she should state that a problem exists and give reasons for the problem that can be addressed by the boss. Giving the boss honest and complete information about problems will also help maintain a positive relationship.

Positive Relationships With Coworkers

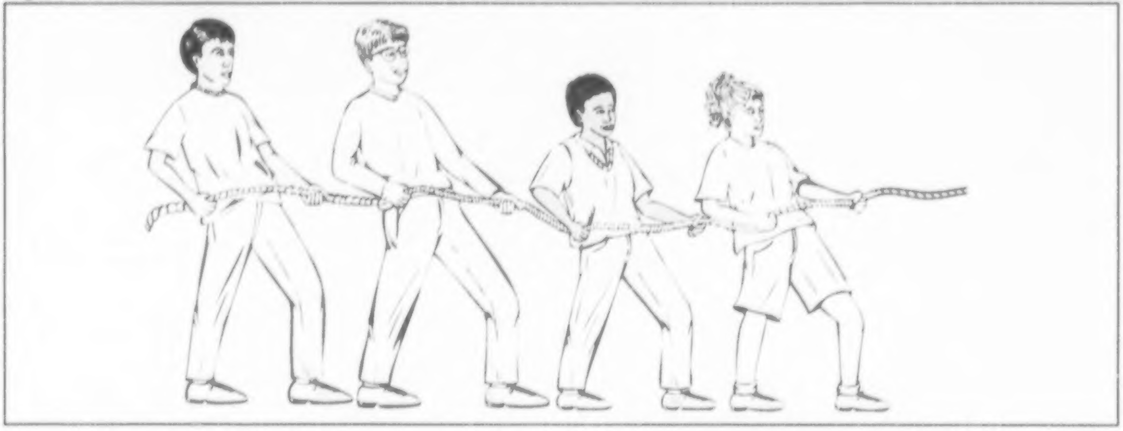
One way for an individual to maintain a positive relationship with coworkers is to do his or her share of the work. Most people are willing to help out if one of their coworkers needs some extra help getting the job done every once in awhile. However, they will become angry if they are constantly having to do someone else's work as well as their own.

Treating others considerately is also important in maintaining positive relationships. Employees need to respect the fact that coworkers will have different personalities, behavior, beliefs, and opinions. They need to tolerate these differences. Even if they do not always agree with coworkers, they must try to understand and accept other perspectives when disagreements occur. Showing consideration for others also involves making compromises to resolve disagreements.

Working as a Team Member

The word team can refer to different combinations of people and even animals, but the concept of a team is always the same--a group working together to accomplish some task. Sports provide many good examples of group effort and teamwork. On a softball team, for instance, the individual effort of one member of a team may produce a base hit, but once the player is on first base he or she needs others to make hits to advance to score a run. The player also needs a coach to help him or her hit, field, or run the bases better. The player's individual

Figure 2.1 - Teamwork



effort is useless without the help of the coach and the other players needed to complete the task.

Teamwork is needed on the job so that workers can combine their individual efforts together to achieve a common goal. A worker needs to understand that even though other workers have differences, it is necessary for them to be unified as a team. Even if a person puts forth his or her best individual effort, that effort is useless without the efforts of the other members of the team. The final result is more important than the separate tasks involved in making a product or offering a service.

Successful team members share several important traits.

- They work hard to do their part to contribute to the success of the team. They strive for excellence even when a task seems unpleasant.
- They share their ideas with others if they believe that they will help the team to be successful.
- They concentrate on finding solutions to problems facing the team rather than on the problems themselves. Focusing on the problem may simply contribute to it.
- They accept the decisions made by others, whether the decision is made by the team as a whole or by a manager.
- They take interest in what the other members of the team are doing. They provide encouragement and praise for their efforts.
- When the team succeeds, they take personal pride in that success. When the team is not successful, good team members are willing to take responsibility for their actions if they have contributed to the problem.

It is important to remember that in some cases not everyone on a team has a positive work attitude or team spirit. Good team members understand that some people may not put forth a winning effort for the team. Since they see everyone on the team as a potential winner, team players do not accept defeat. They work even harder to make everyone a winner!

Summary

Teamwork is important for the success of a business organization. A team member understands that he or she works for himself or herself as well as the business and that individual efforts must be combined with the efforts of others to offer a product or service. Maintaining positive relationships with bosses and coworkers is important in completing the goal of the entire organization.

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Lesson 3:
Criticism

Criticism, if given and taken correctly, can be a valuable tool for workers and managers. A person who cannot give constructive criticism limits his or her abilities to instruct others. A person who does not take criticism well is limited to his or her own ideas and insights.

Types of Criticism

Only two types of criticism exist--criticism that is constructive and criticism that is not. People who do not successfully learn the skill of giving and taking constructive criticism severely limit their ability to instruct and learn. The difference between constructive and nonconstructive criticism is whether or not an explanation of the corrective action required is included. Nonconstructive criticism only identifies the problem; it does not suggest a solution. Constructive criticism identifies the problem and gives instructions for solving it.

For example, suppose Bill has volunteered to be an assistant coach of a local Little League team. At practice, he asks a pitcher to throw him a curve ball. The pitcher did not throw the ball correctly. Bill could respond with nonconstructive criticism: "Are you sleeping out there? I asked for a curve ball, and that wasn't it. Now throw me a ball that curves." This type of criticism does not attempt to determine the cause of the problem or explain how to fix it. It is simply a demand for improvement. If the pitcher does not know how to improve, however, the quality of the pitch is not going to change, and he may resent Bill's unreasonable demands. The pitcher may become angry or just give up trying to improve if the nonconstructive criticism continues.

If Bill uses constructive criticism, he is much more likely to achieve a positive result. Suppose that instead of simply offering criticism, he gives instructions and a demonstration of how to do the pitch properly. Saying, "To pitch a curve ball, you need to spread your fingers over the seams of the ball, like this," Bill demonstrates the proper positioning and watches as the pitcher attempts to imitate him, ready to offer suggestions if needed. Bill takes the pitcher through the rest of the pitch and gives further instructions to improve his delivery. Although the pitcher still needs practice, he at least has the basics down due to Bill's use of constructive criticism.

Understanding the Value of Constructive Criticism

Nonconstructive criticism rarely corrects a problem. It often ends up hurting the person being criticized. In a work environment, the bad feelings created by nonconstructive criticism can have a negative impact on a business. In contrast, constructive criticism is a valuable tool that can be used positively to improve the way a business operates. Understanding the value of constructive criticism is crucial for both employees and management because criticism serves several vital functions.

Using constructive criticism effectively allows a business to meet the goals of operating productively and efficiently. Because no one is perfect, at some time or another everyone will make mistakes on the job. If those mistakes are not corrected, the employee will most likely make them time and time again. This situation could damage the productivity of the business. When criticism is given and taken correctly, however, it can improve the business's productivity, because problems are resolved much more easily.

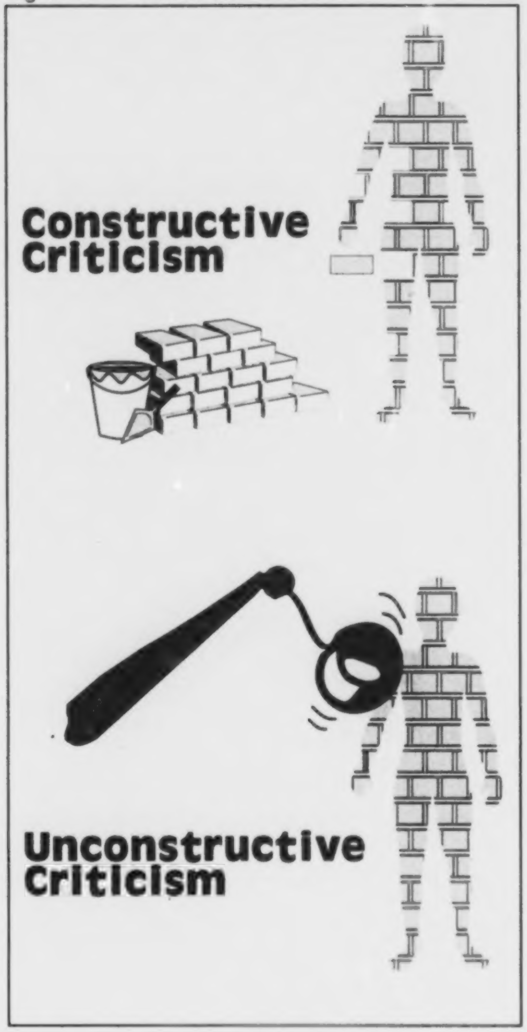
Constructive criticism can help an employee improve his or her job performance. It can be a valuable tool in helping employees become more productive, competent, and valuable. Constructive criticism, which includes giving instructions, allows them to learn more about their jobs. Employees need to remember that criticism is not a personal attack but a way for them to become better at doing their jobs.

A proper use of criticism can improve employee morale. Constructive criticism allows the person being criticized to maintain a more positive attitude about the situation, because he or she is addressed with respect. Instead of simply receiving negative comments about his or her performance, the employee is approached as if he or she can improve, and a means for improvement is offered through instructions and demonstrations. Constructive criticism is supportive rather than destructive. It builds up instead of tearing down.

Receiving Criticism

Everyone can expect criticism on the job. No one is perfect, and mistakes will be made. Handling

Figure 3.1 - The Effects of Criticism



criticism positively when it is received is therefore very important.

Maintaining control over his or her reaction is very important in helping an employee who is being criticized to handle criticism effectively. Criticism is often given in the spirit of helpfulness, and an employee should keep this in mind and listen carefully to the message being given in the criticism. Part of a boss's responsibility is to point out the mistakes an employee makes and to conduct a periodic review of an employee's strengths and weaknesses. In either of these situations, an employee should always show respect for the boss. He or she should listen closely in order to understand the problem and instructions for correcting the problem. Making excuses and being offended by criticism will not solve the problem but will instead limit an employee's ability to implement a solution. Only when the problem is identified can plans be made to correct the situation, which is the final step in receiving criticism effectively.

Since constructive criticism includes giving instructions, employees must know how to take instruction. Listening closely to instructions is necessary so that each step of the whole task is understood. Asking questions can help employees clarify any part of the task that they do not understand. After instructions are given, an employee must follow the instructions and finish the task correctly. If the task cannot be completed correctly for some reason, a person should never be afraid to ask for help. Asking for help can prevent a major mistake (and additional criticism) from being made.

Unfortunately, not all criticism is constructive, but no matter how the criticism is delivered, it can be valuable. Remember that first fall when learning to ride a bike? Riding the bicycle might cause some pain, but most people do not blame the bicycle. Instead, they get back up on the bicycle and try to do better so that it does not happen again. The pain of nonconstructive criticism needs to be dealt with in the same way.

In spite of how criticism is given, employees should think about the message behind the criticism rather than defending themselves. Employees can turn nonconstructive criticism into constructive criticism by meeting it with a positive attitude. They should assure the person giving the criticism that they regret what has happened and are committed to doing better. Then they should ask questions about how to resolve the problem. For example, if a boss tells an employee that he or she needs to become a better team player but offers no instructions about how to put this suggestion into practice, the employee has to ask for specifics. If for some reason no instructions are given, even in response to questions, employees have to find out for themselves what needs to be done to resolve the problem.

Giving Criticism

Many people have special skills. Someone may be able to throw a baseball, cook a meal, drive a car, or complete a task on the job better than others.

Because of this difference in skills, just as everyone can expect to be criticized, everyone is likely to do the criticizing at some point. When criticizing someone else, keep in mind that the way criticism is given can affect how the other person accepts it. Constructive criticism is always tactfully given and is designed to be helpful to the listener. Criticism that is not constructive is sometimes malicious and often causes pain.

Criticism is a two-way street. Criticism is much easier, to receive if it is given with the proper attitude. When the person giving the criticism is calm, courteous, and fair, the person taking the criticism finds it easier to listen, respect the person doing the criticizing, and value the criticism being given.

The following guidelines should be taken into consideration when criticizing others.

- Mention only those aspects of the problem that can be corrected by that person.
- Be clear about what is to be corrected.
- Emphasize how the person receiving the criticism will benefit from it. Most people want to know what they will gain from making the changes requested before they alter their behavior.
- Pick the right setting and time to give criticism. Criticizing someone in front of others can be very embarrassing for the person being criticized and can do more harm than good. Try to avoid giving criticism when the person being criticized is not prepared to listen or accept it--in the middle of a very stressful day, for example.
- Criticize the problem and not the person. Rather than attacking the employee directly (by saying that he or she is incompetent or lazy, for example), focus on the aspect of his or her performance that needs to be changed.
- Whenever possible, mention things that the person does correctly, in addition to the criticism.
- Speak in a positive tone.
- Demonstrate confidence in the person's ability to correct the problem. Allowing him or her another opportunity to do a task correctly is a good way to demonstrate confidence. Simply saying "I believe in you" can also demonstrate faith in the ability of others to do well.
- Look for signs that the listener is responding positively to the criticism. His or her body language, facial expressions, and eye contact can indicate whether or not the person being criticized is responding well. Look for signals that he or she understands the problem and feels supported in solving it.

Criticism without instruction is just a statement of the problem; it does not suggest how the problem can be resolved. To be able to criticize others constructively, a person must know how to give instructions. Understanding the problem and being able to visualize the steps that must be followed to correct it is necessary. The corrective procedure needs to be summarized as a step-by-step process, with each step being explained clearly. If certain steps are hard to understand, the steps should be repeated or demonstrated. After the steps are clearly explained, the listener should be asked if he or she had any questions. Questions must be answered clearly and directly. Reviewing the procedure by allowing the listener talk through or demonstrate the steps can test the results of the instructions.

Constructive criticism is an important tool that can help workers become better at what they do. However, employees should never perceive their boss as someone who is always looking to catch others doing something wrong. Although correcting problems as they happen is important, taking the time to *catch someone doing something right* is just as important. Praise lets people know that their efforts are appreciated and encourages them to continue. A little praise for something done well helps an employee feel good about his or her job.

Summary

Nonconstructive criticism can be damaging. Constructive criticism, however, is a valuable tool, since it can lead to improvements in productivity, employee performance, and morale. Dealing with criticism, whether it is constructive or nonconstructive, is an important part of improving on the job and becoming a better employee. People criticizing others should always be careful to be constructive in their criticism. Respect is important; people being criticized always need to show respect for the speaker, and people giving criticism need to respect the person they are criticizing.

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Lesson 4:
Ethical Behavior in the Workplace

Ethical behavior in the workplace is a very important part of personal development. A business is not likely to survive if employees do not act ethically.

Work Ethics

In general, ethics are a set of values that establish a standard for judging right and wrong. Ethical considerations govern the way people interact in society. Most people agree, for example, that taking something that belongs to another person is wrong. These shared values make living together in a civilized society possible.

Work ethics are principles of right conduct as accepted by a profession or by the business world in general. Some ethical behaviors are of concern in any area of business, such as fulfilling the terms of contracts. Others are of concern to a particular profession, such as the medical profession. Ethical standards serve two main functions: to communicate the ideals of the profession and to serve as a general guide for professional conduct.

An individual business may have a formal written code of ethics that establishes certain rules and practices to govern day-to-day operations. Managers and employees can apply this code if they are unsure whether some act is ethical. In order for a code to be effective, it must apply to all members of an organization and be put into practice on a daily basis. The business must also enforce its code of ethics by punishing violations. If guidelines are met, however, a code of ethics can provide a foundation for ethical behavior for everyone employed by the business.

Work ethics serve an important function for the business world. They make it possible for businesses to prosper, because consumers are more likely to do business with organizations they trust and respect. In the short run, disregarding ethical standards can benefit a business. It may profit as long as no one discovers the unethical practices, but if such practices become common knowledge or if consumers even suspect that they are occurring, public distrust can ruin the business. If you suspected that a business was misleading or defrauding customers or endangering its employees or the public, would you purchase its product or service?

Ethical Behavior

What is ethical behavior? While everyone has personal ethical standards that are reflected in his or her actions, decisions, and values, individual codes of ethics can conflict. Some areas of public debate arise out of these conflicting values. Personal ethical codes also may not help an individual determine what ethical behavior in the workplace is, because the code of ethics he or she has developed may not seem adequate to deal with the complexities of business. In either case, what is ethical is often not clear; ethical versus unethical may not be black and white. Ethical dilemmas arise from these gray areas.

Obviously, if a business has a written code of ethics or clearly follows unwritten standards of professional conduct, an employee should base his or her behavior on them. If it does not, however, he or she should try to determine what is ethical by following certain guidelines.

- Ethical behavior is legal. If an action is legal, it conforms to a set of written laws. However, ethics go beyond written laws to set moral standards for behavior. For instance, the law can outline what constitutes truth (and deceit) in advertising, but it cannot make lying itself illegal. People accept that lying is generally wrong because of ethical codes. The law, therefore, provides the minimum standard for determining ethical behavior. An action that is illegal is also unethical, but unethical actions may not always be illegal.

- Conduct is ethical if it enhances self-respect. When making an ethical decision, it may help to consider whether a certain course of action would be followed by a person of good character. If not, that action is not likely to be ethical. Ethical behavior triggers self-respect, a feeling that an individual is a "good person." An inability to face oneself is an indicator that an action is wrong.

- Ethical behavior develops personal integrity. It enhances personal growth by conforming to moral rules. Even if they do not follow them, most people know the moral standards that are generally accepted by society. Moral rules prohibit murder, theft, cheating, and lying, among many other actions. If an act violates one of these moral rules, it is unethical.

- Ethical conduct involves taking the needs of other people into consideration. An activity that is harmful to others is usually unethical. When faced with an ethical dilemma, a member of a business organization should attempt to look beyond his or her own or the business's interests and consider the interests of those people who will be affected by his or her decision--coworkers, consumers, other businesses, or society as a whole.

- Conduct that is ethical builds confidence in others. In the workplace, when all workers follow principles of right conduct, everyone can work together with a feeling of security. They know what behavior they can expect from others, which improves the relationships between coworkers. Ethical conduct also builds confidence in the general public. In sales, for example, ethical behavior forms a basis for long-term customer relationships.

When attempting to decide whether an action is ethical, thinking about the problem is important. Ethical dilemmas generally cannot be resolved both quickly and well. If an ethical decision must be made rapidly, keep in mind that a choice is probably unethical if it seems wrong or is likely to be criticized by others.

Ethical Behavior and Job Performance

If a person is caught acting unethically, his or her career can be damaged. In very serious offenses, unethical behavior can result in the offender being fired, facing legal charges, and enduring public disgrace. An unethical individual might have sanctions imposed on him or her by the business itself for less serious offenses. Some unethical actions (like betraying the trust of coworkers) might never be overtly acknowledged within the business but may keep an employee from being singled out for special recognition or promotion. Finally, once a person gains a reputation for acting unethically, regaining the trust of others may be difficult or even impossible.

Ethical behavior may not always be rewarded, but it is an essential part of good job performance and creates the potential for advancement. Organizations promote employees who are assets to the organization, because managers want their behavior to spread to others. Most businesses want managers to have especially high standards of ethics, since the management guides overall business activities and sets the standard for other employees to emulate. Employees who are upright in character and respect themselves enough to act ethically inspire respect in others. Ethical employees build good relationships with customers and within the organization itself. Businesses value workers with these qualities.

Summary

Work ethics are principles of right conduct as accepted by a profession or by the business world in general. Making ethical choices is not always easy; what is ethical may not be clear. If a business has a written code of ethics, employees should follow it. If not, individuals can determine whether conduct is ethical by looking at whether it is legal, enhances self-respect, develops personal integrity, takes the needs of others into consideration, and builds confidence in others. While behavior that is unethical may not always be punished, ethical behavior is a part of good job performance and creates opportunities for advancement.

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Lesson 5:
Managing Time Effectively

Managing time effectively is a valuable skill. To achieve all the tasks associated with a job, employees often have to be able to manage their own use of time. Otherwise, the job may not be finished or may be done poorly.

The Purpose of Goal Setting

A goal is an outcome toward which a person directs his or her efforts. Goals are reached through objectives, which are the steps that are followed to achieve the goal.

Goal-setting fulfills several purposes. Goals are important in time-management because it is impossible to make choices about the best use of time if activities have no focus. Goals also give life purpose, preventing an individual from drifting aimlessly from one activity to the next.

Setting up a goal allows an employee to divide a project into manageable parts in order to manage time effectively. The objectives allow time and energy to be focused on a particular step that needs to be accomplished. The objectives can then be used to evaluate the progress that is being made toward reaching the desired goal. This evaluation may cause a person to change the objectives that will be needed to reach a goal.

Developing Goals

The process of setting goals is not difficult, although careful consideration needs to be given to exactly what the goals and objectives should be. The process is outlined below.

1. The first step in developing goals is making sure that the goal is truly what is desired. A goal is more likely to be achieved when a person is committed to reaching it.

2. The next step is to make a short statement describing the goal. The statement should include what is to be accomplished, what may have already been accomplished, and resources that may be needed to help reach the goal. For example, a goal for a retail agribusiness might be to achieve a ten percent increase in sales for the upcoming month. The statement might be "I plan on achieving a ten percent increase in sales by increasing advertising by two percent and extending the hours that the business is open."

3. Carefully consider the steps necessary to achieve the goal.

4. Develop a plan of action. This plan is a detailed outline of the short-range objectives necessary to complete the goal. For example, to reach the stated goal of increasing sales by increasing advertising by two percent, an objective might be to run a special ad to promote sale items. The plan is not completed until the goal is reached.

5. Put the plan into action.

6. The plan needs to be reread periodically to measure the progress that has been made. Rereading the plan will also help an individual determine if his or her present performance will meet the goal.

When setting up a plan of action, goals may be either short-range or long-range goals. In some cases, short-range goals need to be linked to long-range goals. The objective that an individual is trying to accomplish right now may be connected to the goals for the day, week, month, and year, until all short- and long-range goals are linked together to form a lifetime goal. Career planning provides an example of an area in which short-range goals (doing well on an important test) might be linked to long-range goals (graduating from a good technical school) to achieve the lifetime goal of success in a particular career. The short-range goals need to be completed in order to complete the long-range goals.

A well-developed goal has several important characteristics. It should always be clearly stated, which is part of the reason why it should be written down. The goal has to be achievable, and a way to measure achievement needs to be written into the goal. Therefore, when possible, it should be written in quantifiable terms (a *10 percent* increase in sales, for example). A goal must also have a realistic deadline for its completion. Finally, a goal must be flexible enough to take into account changing circumstances.

Prioritizing Goals

Since an individual is likely to be trying to achieve several goals at the same time, prioritizing goals becomes necessary. Several factors need to be considered when prioritizing goals.

Workers are hired to solve problems. They may be employed to produce, promote, or sell a product or service. Some problems are solved by simply pushing the right button, running the right advertisement, or calling the right person, but others take planning to reach the goal of solving the problem. The goals of the entire organization need to be considered first, since personal work goals should be based on responsibility and accountability. A worker needs to understand his or her responsibilities and coordinate his or her goals with the supervisor's and organization's goals. An employee prioritizes goals by taking into account the kind of work that needs to be done to achieve the company's goals. In sales, for example, a company may place a priority on making sure all current customers are taken care of before new accounts are developed. The salesperson's personal work goals may be to call on all the established customers during the first three weeks of the month and then call on possible new accounts during the last week of the month. The goals of the organization must be considered before the salesperson develops additional goals.

Goal setting involves stating what one would like to happen. A problem exists with a goal when what is actually happening is not what is desired. If a problem occurs, it may be necessary to consider prioritizing goals. If a student's semester goal was to get an "A" in algebra, but today's test grade turns out to be a "B", the student's objectives need to be prioritized to reach the desired results. A new objective to reach the desired goal of an "A" may be to cut back on hours spent watching television, playing sports, or working at a part-time job to allow more time to study algebra.

In many cases, goals are prioritized by a natural chain of events. If a career is being planned, a person may need to achieve goals for completing algebra, a term paper, and other high school course work before the goal of graduating from high school. Graduating from high school comes before going to college or trade school, and completing college or trade school comes before preparing a resume and applying for jobs.

When prioritizing goals on a daily basis, one thing to consider is the importance or urgency of the activity involved. Urgent tasks are things that have to be done immediately. They may or may not be important. Important tasks are ones that have long-range consequences. Goals can be prioritized by looking at their relative urgency and importance. For example, if something is both important and urgent, it should take priority over another activity that is also important, but not urgent.

Time Management

Time management is an important factor in accomplishing goals. It can take very little time to get big results if goals and objectives are set, evaluated, and adjusted. The goal of getting an "A" in algebra can be accomplished by planning time during the school term to study every chapter, time to study for a test, and time to get help when information is not understood. Waiting until the night before the final to study is not managing time effectively.

While putting together a weekly time management plan is beneficial, daily time management planning is essential to make the best possible use of time. When setting up a time management system, list and prioritize current goals. Make a list of the objectives that must be completed to reach each goal, and prioritize them. Relate the tasks for the day to the objectives, and then prioritize the tasks on the basis of the goals and objectives. Set up a schedule for completing the tasks, focusing on the ones with the highest priority. Priority tasks should be scheduled for personal peak energy periods--the times that an individual has the most energy. When allotting time for a task, plan using the minimum time necessary to complete a task. The best time for daily planning is at the end of the previous day.

Completing a project or solving a problem without a plan is possible, but it becomes much more difficult to know whether progress is being made. Setting goals helps people to focus on managing their time to achieve a desired end.

Tools for Time Management

Employers today are looking for people who can act effectively to meet goals. Individuals who learn to manage time are able to meet their goals more efficiently than people who do not. Different tools are available to assist in time management.

The simplest of these tools is a list, which is used to set priorities and rank projects or objectives by their importance. The list should include everything that needs to be accomplished, prioritized from the most important to the least important. Each day new items will be added as others are completed and taken off the list; the list must be revised daily to account for these new activities and priorities.

A personal planner is a more specialized time management tool. The planner acts as a type of "action plan" that organizes objectives and goals to be completed. Personal planners contain information on daily, weekly, and monthly agendas, priorities, and finances. They also may contain important personal and business telephone numbers and addresses. Planners can help an individual make time work for them by helping him or her focus on what is important.

The National FFA Organization has a personal planner designed just for high school students. It has a calendar for recording assignments and due dates as well as other important activities. The planner also contains information about FFA, goal-setting and time management tips, and a study guide section.

Summary

To manage time effectively, an employee of a business needs to set up a plan. The most important part of a time management plan is developing goals. Goals are simply an outcome toward which a person directs his or her efforts. Clear and measurable objectives that outline the necessary steps to achieve these goals also need to be set up. Goals may be prioritized according to a natural chain of events, to target problem areas, to satisfy organizational goals, or by relative urgency and importance.

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Lesson 6:
Developing Stress Management Techniques

Sometimes the fast pace of life takes its toll by causing various degrees of stress. Stress can serve a useful purpose by stimulating people's efforts and pushing them to set high standards. However, excessive stress can lead to the development of mental or physical stress disorders. Unless certain preventive measures are taken, stress can accumulate to cause mental or physical breakdowns. People experiencing stress can utilize several techniques to help them manage stress.

Indicators of Excessive Stress

Life inevitably brings problems. Sources of stress include school, work, sports activities, and parents, bosses, or other sources of authority. The way that people feel mentally or emotionally can sometimes affect the way their bodies function. They can feel just as unwell from mental or emotional problems as from physical causes.

In some cases, stress is self-perpetuating. An individual's values and way of looking at things may cause him or her more stress than another person might experience under the same circumstances. A person who suffers from stress is likely to take things more seriously than people who do not. Receiving a "B" on an algebra test may be a very stressful situation to a student who expects perfection.

Stress is sometimes linked to feelings of anxiety, fear distress, guilt, or shame. Excessive stress may be indicated by the following signs.

1. Insomnia
2. Dysfunctional eating habits, including eating too much or a lack of appetite
3. Panic attacks
4. Hyperventilation
5. Increased smoking or alcohol consumption
6. Abuse of prescription or nonprescription drugs
7. Headaches
8. Muscle spasms and soreness
9. Jaw problems caused by clenching or grinding the teeth
10. Cold and canker sores
11. Skin disorders, including itchy or painful rashes and outbreaks of acne
12. Digestive tract problems, the most serious of which are ulcers
13. Chest pain
14. High blood pressure (hypertension), which can be worsened by stress and cause damage to the kidneys or, in serious cases, strokes
15. "Blahs" or "blues" ("blahs" refers to a lack of interest in life, while "blues" refers to a sense of sadness
16. Depression

One of the more serious reactions to stress is depression. Recognizing stressful conditions is generally not hard, but recognizing depression may not be easy. Just as there are many degrees of stress, many degrees of depression also exist. The degree of depression may depend on whether the depression is recognized and how it is handled. Some signs of depression are listed below.

1. Loss of interest in school, work, friends, or activities, which may include not wanting to talk to friends on the phone or, in some cases, isolating oneself and avoiding encounters with friends entirely
2. Difficulty sleeping, interrupted sleep, or sleeping more than usual
3. Loss of interest in food, personal care, and grooming
4. Unplanned gain or loss of weight in a short period of time
5. A feeling of unhappiness that lasts longer than six weeks
6. Suicidal thoughts
7. Pattern of increased carelessness that may cause accidents while walking or driving
8. Poor self image and feelings of worthlessness
9. Blowing up frequently and easily over minor matters that never really were a bother before
10. Loss of energy, sometimes causing an inability to make decisions
11. Feelings of confusion and an inability to concentrate

Many people feel "down" from time to time, but the "blahs" or "blues" are usually passing phases. Identifying where these feelings end and serious depression begins is sometimes very hard. Knowing the signs of depression is important, because it is not a simple condition. Skilled medical and psychological help as well as support from family and friends may be needed to treat it.

Causes of Stress in the Workplace

Many factors can cause stress in the workplace. A job that is undemanding or boring can be just as stressful as one that involves too much responsibility. Most on-the-job stress comes from the gap between the demands of the work and what can reasonably be achieved. Another source of stress is the difference between an individual's desires or expectations for advancement and recognition and what he or she achieves or receives as a reward. A third cause of stress is personality conflicts with other employees or supervisors. Stress may also be the result of a physical illness or problems outside the workplace that make it difficult to concentrate on the job.

Stress Management

One thing that can help individuals deal with stress is being more flexible in their approach to life. No one can eliminate stress entirely, but some stressors (factors that create stress) can be avoided. For instance, if a person's schedule is already full, he or she must learn to say "no" when asked to take an additional task. If stressful situations cannot be avoided, altering one's attitude toward them may be possible. Bend rather than break when confronted by stressors. The stress felt by the student mentioned in the example on the preceding page might have been alleviated if he or she tried to accept that perfection might not always be possible.

In many cases of stress, the circumstances involved are such that preventing stress may not be possible, so stress needs to be managed. Attention should be concentrated on coping with stress at the lowest possible cost to one's health. A variety of techniques can be used to manage stress.

One way of dealing with stress is through some sort of physical relaxation technique, such as deep-breathing exercises or muscle relaxation. In deep-breathing exercises, concentrate on taking slow, deep breaths, which have a calming effect. Stress can also be alleviated by alternately tensing and releasing muscle groups, since forcing muscles to contract automatically triggers their relaxation, allowing muscles that have been unconsciously tightened due to stress to relax. Even simply dropping a clenched jaw and relaxing tensed facial muscles can have a positive effect, but for more complete relaxation, this technique can be practiced on the muscle groups of the entire body from forehead to feet.

Mental relaxation techniques like meditation and visualization can be used as well. Meditation involves clearing the mind of stressful thoughts. Instead of dwelling on those things that might cause stress, focus on one relaxing thought or word for a significant length of time--at least twenty minutes. If meditation seems too difficult, one alternative is visualization. Visualization involves using imagination to focus thoughts in a particular direction. When using visualization, imagine a pleasant scene, one that is associated with peace or comfort. Then place yourself in that scene, imagining what you would be thinking or feeling. Let the scene gradually fade away while retaining the feelings that it triggers.

Efficient time management, which was discussed in Lesson 5, can be another way to reduce stress. Since stress is often caused by feeling weighed down by demands, eliminating those things that waste time can significantly relieve stress. To see if your time may be spent more effectively, review your activities, including how long they take, how stressful they are, and how valuable they are. Eliminate activities that cost more in terms of time and stress than they are worth. Also, concentrate on one day at a time, focusing on what needs to be done that day rather than what lies ahead.

Stress can be managed by focusing on other areas in life. Part of managing stress is engaging in diverse activities and interests, especially leisure activities, and living a balanced lifestyle that includes both work and play. People who keep all their eggs in one basket are much more at risk than those whose lives contain many interests. When stress becomes excessive, manage it by engaging in some sort of leisure activity. Reducing stress may mean taking a walk in the park, or a drive in the country, watching a good movie, being with a good friend, or whatever else helps an individual relieve stress. After relaxing, a person can generally return to a stressful situation with a new attitude.

If people are able to talk about their problems out with parents, teachers, friends, or partners, their stress level is often decreased. Support from family and friends can be especially important in alleviating stress. Make sure to keep these relationships strong so that emotional support will be available if needed.

Humor can be used to reduce stress. Even the simple act of smiling seems to have a beneficial effect, while laughter has been linked to a reduction in body chemicals associated with stress. To alleviate stress, try to find the humor in everyday situations and problems. Take the time to seek out those things that make you laugh--watch a funny movie or television show, for example.

When an individual experiences repeated bouts of stress or depression, he or she should get professional help from a therapist or support group rather than simply trying to cope with it. People go to a doctor to help relieve the symptoms and pain of a physical illness. The same should be true for severe emotional or mental illness. People are not weak or at fault if they experience this type of illness; generally, nothing can be done to stop it from happening. Severe emotional or mental illness needs to be treated like any other illness or disease.

Maintaining a Healthy Lifestyle

While the techniques mentioned in the previous section can alleviate stress, eating properly, exercising, and getting enough sleep can not only reduce the effects of stress but also improve a person's health. If a person does not follow these recommendations for diet, exercise, and sleep, stress can take a greater toll on his or her system.

A balanced diet high in complex carbohydrates and low in fats is important for health, especially since stress can aggravate problems such as high blood pressure that can be affected by diet. Daily nutritional recommendations from the USDA call for six to eleven servings of bread, cereals, rice, and pasta; three to five servings of vegetables; two to four servings of fruit; two to three servings of meat, poultry, fish, dry beans, eggs, and nuts; two to three servings of milk, yogurt, and cheese; and sparing use of fats, oils, and sweets. A diet high in complex carbohydrates (grains, potatoes, breads, rice) is beneficial because they release long-term energy. Foods that contain a lot of refined sugar can give a quick energy boost, but the resulting energy level will drop just as rapidly. Fats should be limited because they increase blood cholesterol levels linked to heart disease.

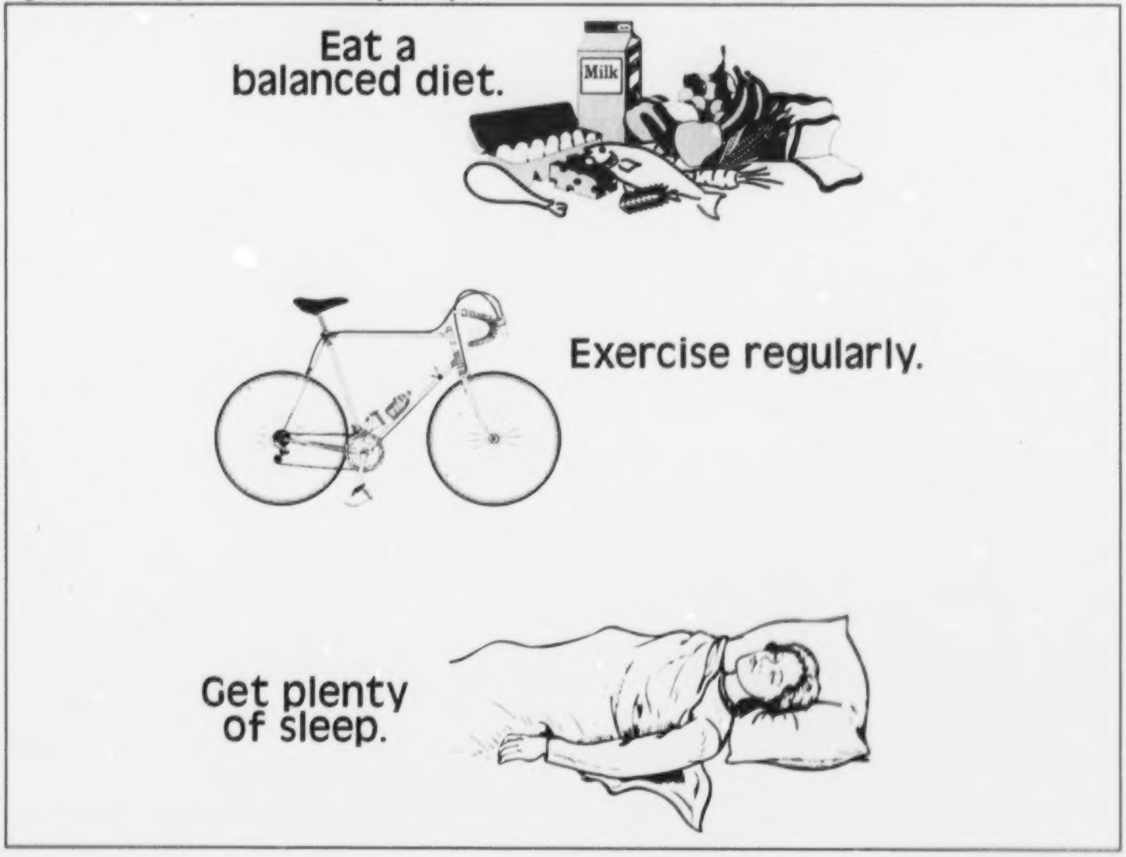
Eat a balanced diet.
Milk
Exercise regularly.
Get plenty of sleep.

Figure 6.1 - Components of a Healthy Lifestyle

When meals are eaten also has an effect on health. Eating breakfast is very important. It provides energy for the body to operate in the morning when energy levels are depleted. Skipping any meal can lead to fatigue, headaches, and an inability to concentrate that can affect performance.

Exercise is another important part of a healthy lifestyle. Not only does exercise have obvious physical benefits, such as strengthening muscles (including the heart) and burning calories, but is also lowers anxiety levels, gives an increased feeling of personal control, and reduces the levels of hormones related to stress, all of which are important in countering the effects of stress. Everyone should perform some sort of aerobic (requiring a continuous supply of oxygen) exercise for 30 minutes three times a week, with proper warm-up and cool-down periods to reduce the chance of injury. Aerobic exercise includes such activities as running, swimming, dancing, and cycling; walking is a very effective form of aerobic exercise. If exercising for thirty minutes is not possible due to poor fitness, start by exercising for a shorter period and work up. The key to a good exercise program is moderation. Too much exercise can be as harmful as too little, since frequent exercise increases the risk of injury.

Getting enough sleep is the final component of a healthy lifestyle. If a person is suffering from a lack of sleep, he or she will display irritability, an inability to concentrate, and a diminished memory, all of which affect performance. While the amount of sleep required varies from person to person, most people need at least seven hours of sleep a night for the body to replenish itself. People under stress need even more sleep, since their bodies have more demands made on them.

Summary

Stress can be harmful because the way people feel mentally and emotionally can sometimes affect them physically. An individual may experience tension headaches, digestive disorders, high blood pressure, skin diseases, or other physical problems that are brought on by stress. Many techniques can be used to help alleviate the effects of stress. Proper diet, exercise, and sleep are important not only because they counteract the effects of stress, but also because they are essential to a healthy lifestyle.

Credits

Eliot, Robert S., M.D. *From Stress to Strength: How to Lighten Your Load and Save Your Life.* New York: Bantam, 1994.

Leatz, Christine A., M.S.W. *Career Success/Personal Stress: How to Stay Healthy in a High-Stress Environment.* New York: McGraw-Hill, 1993.

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Lesson 7:
Finding a Job

Determining which career to pursue and finding a job are two very different processes. Individuals must decide what career interests them. They must look into career opportunities and characteristics of different careers. After an individual has selected a career, he or she needs to find a job in that area.

Steps in Choosing a Career

Consider interests, abilities, and other characteristics. What are your hobbies and interests? Do you enjoy showing cattle, riding horses, or walking in the forest? What talents do you have? If you are artistic or enjoy public speaking, consider careers in which you could use these skills. What careers appeal to you? Think about friends or family members who work at jobs that seem interesting. In what courses in school did you do well? In what areas do you have experience or knowledge? Which of your physical characteristics may influence your decision? Some characteristics may limit career choices. If a person has poor eyesight, he or she is unlikely to become a professional umpire. If he or she has slow reflexes, being a jet fighter pilot would be difficult. Being a tree surgeon requires good arm strength to climb trees. An individual with many allergies may not want to work as a landscaper or gardener.

Take career interest or vocational aptitude tests. Most counselors or placement directors have access to these tests. The scores from these tests may indicate which skill areas are strong or weak. The Armed Services Vocational Aptitude Battery (ASVAB) is a commonly-used vocational aptitude test.

Narrow the field of career choices. When trying to choose a career, consider the following questions. Do you like to work with people or things? Do you like to work alone or with others? Do you want to work indoors or outdoors? Would you rather work with your hands or with ideas? What type of salary do you want? Do you want to live in a rural or urban location?

Study the characteristics of career choices. Compare the education or training required, work environment, salary range, expectations and duties of the job, and opportunities for advancement for different careers. The library, school counselor, or career center should have information about careers. Another good place to learn about careers is from people in that occupation. They are excellent sources of information that books may not provide.

Choose a career that matches personal interests. Based on the information gathered in the preceding steps, select careers that match personal interests. If a person enjoys working with animals, becoming an accountant would probably not be a good choice. If he or she likes working with numbers, being a veterinary technician probably would not be enjoyable. People are more likely to be successful in careers that they find interesting.

Plan for alternative occupations. Allow some room for choices in a career. Look at careers in related areas. If being a green keeper seems appealing, look at related areas such as grounds keeper, golf course superintendent, or a lawn service manager. Also, look at careers that require similar skills. For example, a tractor mechanic, welder, and computer repair technician all require good mechanical skills, but the career areas are quite different.

Plan for career preparation. Preparing for a career is important. The next section of this lesson will discuss career preparation in more detail.

Career Preparation

Career preparation can include the courses taken in high school, work experience, and any additional education. In high school, take courses that are interesting and explore a variety of subjects. The best time to look at career alternatives is in high school.

High school students can use several different strategies to gain work experience. The agriculture program provides excellent opportunities for real job experience through Supervised Agricultural Experience (SAE) programs. Another way students can gain experience is to take summer jobs in career areas that interest them. Students can also obtain experience through work-study programs and through unpaid observations. Unpaid observations may include accompanying a veterinarian or extension agent to observe the responsibilities of the job. Students should try to explore a variety of career opportunities while in high school.

When preparing for a career, students should plan for additional education or training beyond high school, if required. They can obtain training from vocational-technical schools, two- and four-year colleges and universities, or private technical schools.

Ways to Find Out About Available Jobs

Once an individual has prepared for a career, he or she is ready to find a job in that career area. Information about possible jobs can be found through many sources. The most obvious place may be the classified advertisement section of newspapers, which lists some of the job openings in the community. Both local newspapers and newspapers from surrounding cities or states can provide useful information about jobs. Magazines covering an area of interest may also contain classified advertisements for job openings. Magazines about the fruit production industry, for example, will have advertisements for orchard managers and other positions.

Personal contact with friends, family, teachers, etc., is an excellent way to find out about available jobs. They may know of job vacancies before the information is released to the public. Unless they are asked, however, personal contacts may not consider revealing job openings, so asking direct questions is important. Also, when talking with friends and family, practice active listening (listening closely and trying to understand completely what is being said). Even before the job search begins, friendly conversation may reveal a good opportunity for a job.

Job openings can be discovered by contacting private and public employment agencies and the businesses themselves. Private and public employment agencies will have information about jobs that are available. Some companies work exclusively through employment agencies. Also, check with businesses directly to find out about openings; ask about opportunities or just look at a placement bulletin board.

Either as a student or after graduation, check with the school placement office. Telling the placement person what types of jobs are of interest is important when visiting the office. He or she may know about job opportunities but may not mention them unless an interest is shown. Look on the placement board for current job listings as well. Some businesses simply post job information on the board. Meeting with recruiters who occasionally come through the office may be beneficial if a person has an interest in further education or the military.

A source of information about job openings across the nation is the Internet. Job search resources that allow an individual to search a database for a particular job title can be used as an aid in finding a job. People searching for jobs can also join an electronic bulletin board service to access its postings for employment. These services may be free or they may require users to pay a fee.

Applying for a Job

Certain steps are generally followed when applying for a job. First, the job applicant should prepare a resume to submit when applying and interviewing for jobs. The second step is to contact the employer about job opportunities. An individual may have many leads on possible jobs, but without contacting the business, he or she cannot know which jobs are still open. The next step is to fill out a job application. If the application passes inspection, the applicant may then get the opportunity to interview with the business. Finally, he or she should be sure to show a real interest in the job by following up after the interview rather than leaving the responsibility for making contact to the interviewer.

Job Inquiries

Once possible job openings have been identified, contact businesses about available jobs. Direct contact with the potential employer, telephone contact, or letters of inquiry can be used to inquire about jobs. The method used will vary depending upon the size of the community, the location of the business, and the position.

When pursuing a job in a small town, contacting the manager directly may be best. Direct contact involves going to the business and talking with the manager or personnel director about job opportunities. If the job is in a large metropolitan area with many businesses, speed up the process by inquiring by phone. If jobs are available, set up an appointment to meet with the managers. Calling for an appointment can be more convenient for the employer than the walk-in inquiry. Often, a letter of inquiry (see Figure 7.1) is appropriate. If the job opportunity would require long-distance travel, write to make sure a job is available before visiting in person. Sending a letter of inquiry may be more

Figure 7.1 - Letter of Inquiry

349 Monrovia Street
Littleton, Missouri 10005
May 5, 19--

Mark Eads
Service Manager
Jackson's Implements
220 Old Hwy. 47
Bigton, Missouri 66555

Dear Mr. Eads:

At the suggestion of my agricultural education instructor at Littleton High School, Mr. Tom Adams, I am writing to you regarding employment with your service department.

On June 4, I will graduate with a strong emphasis in agricultural mechanics. I have completed small engine repair, farm implement repair, welding, and electricity classes with a B+ average. In addition, I completed a computer course that covered spreadsheets, databases, and word processing. I also worked part-time at a small engine repair shop this past year, which enabled me to improve both my mechanical and people skills.

My resume with additional information is enclosed with this letter. Since I am planning a career in the agricultural mechanics field, I am eager to work for an implement dealer with a reputation like yours.

Please send application materials in the enclosed envelope for any positions for which I might be considered. I look forward to hearing from you.

Sincerely,

Janet Stewart

Enc: resume, envelope

appropriate when trying to obtain a supervisory or upper-level position.

Summary

Before beginning a job search, select a career area. Consider interests and abilities when selecting a career. After preparation for a job has been obtained, apply for a job. Job inquiries can be made over the phone, through the mail, or by direct contact. Then apply for the position using a cover letter, resume, and/or job application. A follow-up letter may be useful after making contact with a potential employer.

Credits

Harris, Clark Richard. *Leadership and Personal Development.* University of Missouri-Columbia: Instructional Materials Laboratory, 1991.

Lesson 8:
Resumes and Applications

A resume is a written summary of an individual's qualifications for employment. It is a very helpful tool when searching for a job. Resumes are given to prospective employers and may also be used as a source of information when completing applications for jobs, scholarships, awards, etc. The ability to complete an application properly is very important as well. Frequently, prospective employers will review an application when the applicant is not present. Therefore, it must be accurate and clearly written. A poorly written, sloppy application will be the first one thrown into the trash can.

Resumes

Although resumes may be set up differently, they should contain the same basic information. The information is usually presented as outlined below. Sample resumes are shown in Figure 8.1 and 8.2. The placement of information within the different sections of the resume may vary slightly. For example, the National FFA organization has a specific format for resumes that differs somewhat from the examples shown.

Personal information - This information should be listed first on a resume. It includes the individual's name, current address, and telephone number. If his or her current address is different from the permanent address (i.e., parents' address), then the second address should also be listed. The reason for including a permanent address is that many potential employers will keep resumes on file for job openings that appear later.

Employment objective - After the personal information, a brief statement of the employment objective, which indicates the type of job being sought, should be included. For example, an individual might have to find work as a wholesale salesperson. The objective should be specific to each job, which means that it will be changed each time a person applies for a different job. A specific objective lets an employer know that the applicant is interested in a particular job.

Educational background - In this section, list the most recent education first. Include dates, places, and degrees earned, as appropriate. If a degree has been earned from a college or technical school, high school information may be omitted. Any information about earning a certain degree should be listed here. For example, if a person earned a college degree financed completely (100%) or partially (70%) through scholarships and work experience, he or she should note this fact below the information about the degree to show an employer that the applicant is willing to work hard and take responsibility.

Work experience - List the most recent work experience with starting and ending dates first. If an individual is currently working, he or she should include the start date for the job followed by the words "to present." Include the company's name and address. If the job has a title, it should be listed, along with a brief but detailed description of the duties and responsibilities associated with it. This information will be used before the interview to make the initial decision about the applicant's qualifications for the job.

Other information - Headings such as "Activities," "Honors," "Awards," and "Skills," or a combination of these (e.g., "Honors and Activities") are appropriate. They should be organized with the most important items first. If the list is long, select only the most important. This list may vary for different jobs because some information may be more appropriate for one job than another.

References - At the end of the resume, type the heading "References" followed by either the references themselves or the phrase "Available upon request" if the resume does not have enought space to include them. If the resume says that references are available, make sure to have a typed list of references ready to give to the employer if he or she asks for them.

The reference list should have the word "References" centered at the top of the page and include the names, job titles, addresses, and telephone numbers of at least three people who have direct knowledge of the skills, work experience, and/or character of the person putting together the resume. People used as references should not be relatives of the applicant. Teachers can be good references, since they know about an individual's class work and sense of commitment and responsibility.

Professional and personal references should be listed separately. Professional references are given

Figure 8.1 - Resume (High School)

Tim Johnson
2288 South High Street
Anytown, MO 66444
(573) 555-1396

CAREER OBJECTIVE: To obtain employment in the field of horticulture.

EDUCATION:

Anytown High School, Anytown, MO
Projected graduation date: May, 1998
Grade point average: 3.4/4.0
Science and Horticulture emphasis

EXPERIENCE:

Anytown High School Anytown, MO Greenhouse Worker
Part-time greenhouse worker; assisted with daily plant care and transplanting.
9/96 to present

Kay's Landscaping Anytown, MO Landscaping Assistant
Part-time landscaping assistant; assisted with installation of trees, shrubs, perennials, and turfgrasses.
6/96 to 8/96

HONORS and ACTIVITIES:

Nursery/Landscaping contest team; secretary, FFA; honor roll, 2 years; 4-H member, 6 years; high school choir member

REFERENCES:

Gayle Smith
Agriculture Instructor
Anytown High School
Anytown, MO 66444
(573) 555-1234

Kay Weber
Owner
Kay's Landscaping
Anytown, MO 66444
(573) 555-4444

Tom Richards
Principal
Anytown High School
Anytown, MO 66444
(573) 555-1234

Figure 8.2 - Resume (College)

ELISA RIERA

PRESENT ADDRESS
1911 E. Walnut
Anytown, MO 66444
(573) 555-1233

PERMANENT ADDRESS
R.R. 3, Box 156
Othertown, MO 63437
(573) 555-1357

CAREER OBJECTIVE:

To obtain a position as a field manager for the Swine Products Department with Cargill, Inc. - Nutrena Feed division.

EDUCATION:

State University
Bachelor of Science in Agriculture, May 1996
Major: Agricultural Economics   Minor: Animal Science
GPA: 3.2/4.0   Major GPA: 3.5/4.0
Financed 100% through scholarships and work experience.

EXPERIENCE:

Riera Custom Baling   Othertown, MO   Owner and Operator

Owner and operator of custom baling service producing 10,000 bales a year for various employers. This includes preparing, operating, and repairing the baler, and managing all present and future aspects of the enterprise. The tractor and baler are leased, and the annual maintenance expenses are shared. This operation has financed a major portion of my education expenses.
1993-Present

Riera Farms   Othertown, MO   Assistant Manager

Farm consists of 430 acres of grain and pasture production, a 250-sow farrow-to-finish operation, and a 280-ewe feeder lamb operation. Responsibilities include assisting with the planting and harvesting of the crops and management of the livestock. Personally involved in the daily decision-making process and management of the farm operations.
1990-Present

Bijou Restaurant   Othertown, MO   Server

Responsible for serving patrons of the establishment.
March 1992-June 1992

HONORS AND ACTIVITIES:

Little Sisters of the Pearls and Rubies-Secretary
National Agricultural Marketing Association
Alpha Zeta Academic Fraternity
College of Agriculture Scholarship
Andrew Benton Memorial Scholarship
Veronica Orris Scholarship
Daniel and Caroline Thornton Scholarship
MFA Foundation Scholarship
Diane Dent Scholarship
Department of Agricultural Economics Award for Scholastic Excellence
State University Dean's List

REFERENCES: Available upon request.

by people who have worked for or with the job applicant and can vouch for his or her abilities. Personal references are given by people who have known the applicant for an extended time and can vouch for his or her character. If possible, a separate reference page should be used for each type of reference.

Before using someone as a reference, contact that person and gain his or her permission. If possible, let the person know what the job is. Be selective when asking people to serve as references; make sure that they are able and willing to give a good reference. Asking a potential reference if he or she feels prepared to provide a good recommendation gives him or her a chance to consider that matter.

Resumes should be one or two pages in length. Try to keep a resume as short as possible; only include the most important information. For entry-level jobs, one page is enough. A resume should be longer than one page only if the amount of experience the individual has requires two pages. A resume should be neatly typed and sharp, clean copies should be made on good quality copy paper, perhaps colored and with a slight texture. Avoid extreme colors. Poor copies make a poor impression on potential employers.

Completing Job or Scholarship Applications

When completing a job or scholarship application, be as neat as possible. Type the application, or write neatly in black ink if the application must be completed at the site. Do not leave any blanks. If the application is not completed, the people reading it may wonder whether you did not understand the question, did not want to reply, or thought the question was not applicable. For questions that do not apply, fill in the blanks with "N/A" (not applicable).

The form should be completed accurately. Spell all words correctly; misspelled or scratched-out words quickly detract from the quality of the application. Follow the directions on the application. Read ahead before filling in the blanks. Do not assume that all forms are set up the same way. For example, assuming that the state and zip code are placed after the city in the personal information section would be a mistake if these items were to be included on a different line. Another common mistake is placing a first name in a blank asking for a last name.

Two strategies may help when filling out applications. If the application may be taken home, make a photocopy of the form and prepare a working copy. Then accurately transfer the information to the application that will be given to the company. A person searching for a job should also prepare a file that contains job application information, such as resumes, references, or any additional information that he or she may need, and carry when contacting any potential employer in person so that the information will be readily available to fill out applications. Such preparation expresses to the potential employer that the person is truly interested in a job and is an organized individual.

Applying for a Job

Once information about an opening has been obtained and a resume has been completed, begin the job application process. If possible, visit the business to obtain an application; fill out the application and send it to the company with a resume and cover letter. If a job application cannot be obtained, go ahead and send the cover letter and resume. Figure 8.3 shows an example of a cover letter.

The cover letter is a tool used to gain the interest of the potential employer. It should inform him or her of the qualities and skills that a person has that qualify him or her for the job. The letter should include several paragraphs that discuss where information about the job was obtained, why it is of interest, and what qualifies the applicant for the job. The applicant should also use the cover letter to request a job interview (or at least a personal call).

The initial paragraph of a letter of application should indicate the reason for writing, the specific position or type of work for which the writer is applying, and how he or she learned of the opening. The writer should refer to any previous conversation or correspondence.

In the second paragraph, the writer should mention why he or she is interested in the position, the organization, and its products or services. Above all, it should indicate what the applicant can do for the employer. A recent graduate might explain how his or her academic background qualifies him or her for the position. If he or she has had some practical work experience, the writer could point out specific achievements or unique qualifications. The letter

Figure 8.3 - Cover Letter

111 Deer Park
Any City, Missouri 10002
April 1, 19--

Andrew Smith
Personnel Director
Green Seed Company
222 Cunningham Road
Any City, Missouri 10001

Dear Mr. Smith:

This letter concerns the sales position that you have available in the Southwest Missouri territory. I discovered the opening through my school placement office.

The sales position is in my area of interest. Last summer I worked as an intern with Gail Ray, a sales representative for Dayton Seed. In this position, I found myself to be well qualified to be a sales representative in your field. I have also had extensive experience working with many people during my education, as president of my FFA Chapter and vice president of my senior class. These experiences helped me to develop leadership, organization, negotiation, and people skills.

Enclosed are my resume and a completed application. I believe that you will find my credentials qualify me for this sales position.

If possible, I would like to meet with you so that we can discuss the position available and my qualifications. I will contact you on April 10 to see if a personal meeting can be arranged. If you have any conflicts or questions, please contact me at (715) 555-6886.

Thank you for your consideration.

Sincerely,

Tim Jones

Enc: resume, application

should not repeat the information the reader will find in the resume.

In the third paragraph of a letter of application, the applicant should refer the reader to the enclosed resume or application that summarizes his or her qualifications, training, and experience. The writer may also make the employer aware that his or her credentials can be obtained from a College Placement Office. If both paragraphs are very short, the third paragraph of the letter can be combined with the second.

The closing paragraph should indicate a desire for a personal meeting. The applicant may want to suggest alternative dates and times or simply advise the other person that he or she is flexible regarding the time and place for an appointment. The writer should include his or her phone number in the letter and offer any assistance to help obtain a speedy response (such as calling on a certain date to set up the meeting). A sentence should be included asking if the contact person desires additional information or references.

The writer should use short but complete sentences and avoid unnecessary words throughout the letter. None of the paragraphs in the letter should exceed five sentences. The writer should avoid overusing the word "I." Many sentences can be reworded with a little effort. The letter will then sound more businesslike and flow more smoothly.

Summary

Resumes and applications represent the people completing them and must therefore be of good quality. Employers may decide to interview or hire a person based on the strength of a resume and an application. Scholarships often are awarded based on an application alone. By following the simple guidelines in this lesson, an individual can prepare good resumes and applications.

Credits

Harris, Richard Clark. *Leadership and Personal Development.* University of Missouri-Columbia: Instructional Materials Laboratory, 1991.

Lesson 9:
Interviewing for a Job

Applying and interviewing for jobs are very important skills. Once possible job openings have been identified, an applicant must sell himself or herself to the interviewer. The selling process begins with the resume and job application. They must be neat and make the interviewer want to talk to the job applicant. Giving the best interview possible is then vital. Frequently, the interview is an individual's only opportunity to impress a potential employer with his or her abilities.

Dressing for the Job Interview

When interviewing, appropriate attire is important. A suit is often worn for an interview, but the applicant should be familiar with the type of clothing worn on the job and wear at least what is expected for employees. If a person is applying for a job as an administrative assistant, shorts and a top would not be appropriate attire. On the other hand, wearing a suit to an interview as a grain elevator worker may not give the correct impression to the employer. Never wear clothes with holes, tears, or stains. Remember that a job applicant has only one chance to impress the interviewer and can always dress down later if the job requires more casual clothing.

Dress conservatively. A more conventional interviewer may not appreciate flashy or trendy clothes. One example of conservative dress is a plain white shirt or blouse, rather than a shirt or blouse that is flowered or has bold checks. Wear simple jewelry, if any, and a minimum of makeup. Bold jewelry or excessive makeup is distracting.

Wear polished shoes. Some interviewers will take note of shoes as an example of an applicant's normal appearance and attire.

Be neat and clean. An individual interviewing for a job should always look his or her best. Avoid stopping for gas on the day of the interview because of the lingering odor from the fuel. Also, avoid eating messy foods before or during the interview. Interviewing in stained clothing would be very embarrassing.

Hair should be neat and of an appropriate length. Loose, long hair may be unsafe for jobs around machinery. Men should be clean-shaven or have well-trimmed facial hair. A scraggly beard just makes an applicant look scruffier, not older.

Before Arriving for an Interview

One of the first things that a person should do before interviewing is to research the company. He or she might talk with friends who work there, call the business for information, or look up information at the library. It would not make a good impression to ask what type of work is done at a business. If a job applicant does not know what the company does, why would he or she want to work there?

Know what type of job is available. Knowledge of the specific job title is not necessary, but a general knowledge of the opening (whether the job is in sales, service, or management, for example) is important. When asked what position is desired, "Any job that is available" is not a good answer.

Knowing the interviewer's name and the correct way to pronounce it is also important. This information can easily be learned by calling the receptionist. Addressing the interviewer by the wrong name or mispronouncing his or her name is not a good way to start the interview.

Practice interviewing before going in for an interview. One opportunity for practice is a mock interview with a teacher or administrator. Expect constructive criticism. The whole reason for practicing is to improve interviewing skills. If the job applicant knows a businessperson, asking him or her to give a practice interview may be helpful.

Consider videotaping a practice interview. The interviewer should ask tough questions to aid in preparing good responses for the real interview. The video can provide insight into problems with voice, posture, appearance, and quality of responses. Engaging in several practice interviews would be even more beneficial, because watching the video between practices to look for areas that need improvement would be possible.

Bring a resume to the interview. It will be useful if the interviewer does not have his or her copy handy. The resume can also be a reminder for information such as dates of employment.

Bring a black ink pen to fill out additional forms and to take notes. They are recommended because many businesses request that forms be completed in black ink.

Go to the interview alone. If friends come along, the job applicant does not appear to be serious about working. If another person drives the applicant to the interview, he or she should wait outside.

Arrive ten to fifteen minutes early in order to be relaxed for the interview. If the prospective employee is late for the interview, the interviewer may take it as an indication that he or she may be late on the job. If delays cannot be avoided, call the interviewer.

When driving to an interview, make sure the vehicle is clean inside and outside. Often, employers use the job applicant's vehicle as a measure of his or her personality. Drive carefully and within the speed limit on the way to the interview.

Being aware of major current events is helpful. The interviewer may talk about something that is happening locally or nationally. If the person being interviewed can contribute to the conversation, his or her knowledge creates an image of a well-rounded individual.

Pointers for the Interview

The first thing to remember is to make a good first impression. An interviewer will find it hard to overlook a poor impression. Remember that the first impression may be made as the job applicant drives up to the business or influenced by the way he or she acts in the lobby or halls while waiting for the interview. Since the interviewee may not always know who the interviewer is, he or she should always be careful to act appropriately.

Be prepared. Proper preparation includes doing research, practicing for the interview, and dressing appropriately. Preparation can be extremely important for a successful interview.

When greeting the interviewer, make sure to shake his or her hand. Give a firm handshake; do not grasp the interviewer's hand too tightly or too limply. A firm grip shows confidence.

Be polite, using good manners. Being courteous does not just apply to the interviewer, but to all the employees of the company. The receptionist, for example, may be asked what he or she thinks of the applicant.

Listen closely to what the interviewer is saying and respond when appropriate. Answer the interviewer's questions completely without talking too much. Knowing when enough has been said is important. A job applicant can sometimes talk himself or herself out of the job by giving too many details.

Be positive during the entire interview. Do not talk negatively about previous jobs or school. The interviewer will probably not hire a person who displays a negative attitude.

Maintain eye contact with the interviewer. Do not stare, but look at the interviewer when he or she is speaking. Making eye contact signals that a person is paying attention and is interested in what is being said.

Do not smoke or chew gum or tobacco before or during the interview. If a job applicant smokes on the way to an interview, his or her clothes may carry a lingering tobacco odor, which may be offensive to the interviewer.

The interviewer will usually ask if the person being interviewed has any questions, which is a good opportunity to ask a few questions. Make sure that the interviewer has not already addressed the questions.

Observe cues that the interview is ending, such as the interviewer straightening papers on the desk, asking for other questions, and pushing back his or her chair. As the interview draws to a close, give a short, positive closing statement. In making this statement, the applicant should be sincere about why he or she would like to work for the company or how he or she would fit into the company. This last statement may be what the interviewer remembers, and it may make the difference. Thank the interviewer for his or her time and shake hands before leaving.

Questions Asked During a Job Interview

Interviewers ask many different types of questions during job interviews. Planning the answers to some tough questions ahead of time is worthwhile.

"What qualities do you have that will help you in this job?" A possible answer would be, "I get along well with other people." However, since this is a value statement, it would be better to say, "I enjoy working with others." Giving examples of committees, teams, etc. would help elaborate on this answer.

"What are some of your faults?" Do not give a long list of shortcomings but focus on one or two areas for improvement. An appropriate response would be, "With my limited experience, I have a lot to learn."

"What are three adjectives that describe you?" Plan for this question by having a list of four or five adjectives prepared. Good responses include industrious, responsible, cooperative, efficient, loyal, and trustworthy. Be truthful because the interviewer may ask for a couple of examples that back up the adjectives used in the description.

"What do you want to be doing in five years?" Be careful when answering this question. If the person being interviewed says he or she wants to move up a step or two in the company, the person at that step may be doing the interviewing. If he or she expresses an interest in doing something else, the interviewer may give him or her that opportunity now. It is appropriate to express a desire to expand responsibilities and learn new skills to improve job performance.

"What have you done that makes you qualified for this job?" Do not be too boastful, but give some examples of past successes that demonstrate qualifications. Examples that reveal hard work and discipline are always appropriate.

"Why are you interested in working for our company?" This question helps interviewers decide if they want the interviewee to work for the company. It also tells the interviewer the applicant's reasons for wanting to work there. The prospective employee might point out that a friend or family member has the same job and it sounds very interesting or that he or she became interested in the career area when it was discussed in agriculture classes.

"What have you done that shows you can work with other people?" The job applicant might discuss activities that show how well he or she has worked with others. FFA provides numerous opportunities to demonstrate an ability to cooperate with others, such as committees, contest teams, leadership activities, etc. It is also helpful to include non-FFA examples such as sports, student council, 4-H, church youth group, or fair board. Do not get too carried away with the list of accomplishments, or it will seem like bragging. Include only the most significant achievements.

These questions may be difficult to answer without preparation, but they are all appropriate questions. Sometimes interviewers may ask questions that are inappropriate and illegal, however. Because of anti-discrimination laws, interviewers cannot ask questions about age, ethnic background, nationality, religion, disabilities, marital status, sexual orientation, political affiliation, and arrest record. The person conducting the interview may not know that the question is illegal. The job applicant may refuse to answer, or he or she may try to address the issue that prompted the question. For example, a question about marital status may arise from a concern about the applicant's ability to travel extensively. The prospective employee can also choose to answer the question.

Questions to Ask During a Job Interview

During an interview, the job applicant will probably be given an opportunity to ask some questions, and he or she should take advantage of it. Asking questions demonstrates an interest in the job and indicates that the interviewee is listening. Here are some examples of possible questions.

"What types of benefits are available?" Do not be too specific. Give the interviewer the opportunity to talk about the benefits. Ask a follow-up question for more details.

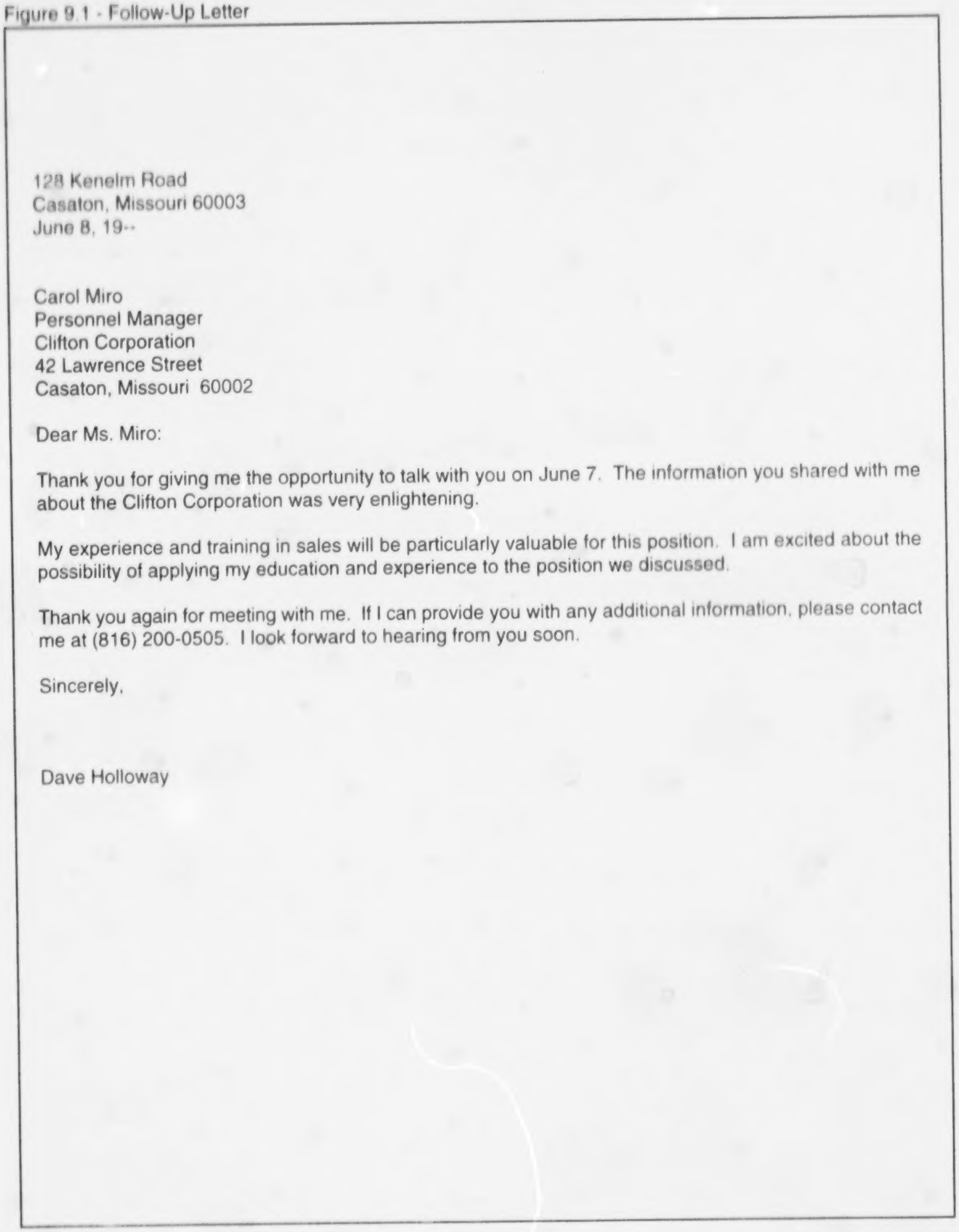
"What types of responsibilities will I be expected to fulfill?" Besides general job responsibilities, the answer to this question may hint at expectations to work overtime and nights or to take evening classes in the job area.

"What are the opportunities for advancement or expansion of responsibilities?" This question shows that the person being interviewed is interested in more than just a job. It indicates that he or she is interested in a long-term commitment.

"What type of wage or salary range can be expected?" While the answer to this question is obviously important, wait until the end of the interview to ask it. Asking earlier may give the impression that the applicant is only interested in the job for the money.

"When will the position be filled?" Most businesses will know when they plan to fill a position. Asking this question will give an idea of how long to wait before calling about the job.

Figure 9.1 - Follow-Up Letter



128 Kenelm Road
Casaton, Missouri 60003
June 8, 19--

Carol Miro
Personnel Manager
Clifton Corporation
42 Lawrence Street
Casaton, Missouri 60002

Dear Ms. Miro:

Thank you for giving me the opportunity to talk with you on June 7. The information you shared with me about the Clifton Corporation was very enlightening.

My experience and training in sales will be particularly valuable for this position. I am excited about the possibility of applying my education and experience to the position we discussed.

Thank you again for meeting with me. If I can provide you with any additional information, please contact me at (816) 200-0505. I look forward to hearing from you soon.

Sincerely,

Dave Holloway

After the Interview

If a job is offered after the interview, asking for time to consider the offer is generally acceptable. The amount of time will depend on the commitment involved. If it requires relocating or unusual conditions, more time may be needed to think it over. If it is a job at a local business for minimum wage, the prospective employee may want to accept it right away before the business interviews someone else. When taking time to think about a job offer, be sure both parties agree on the amount of time allowed.

The job applicant may have to take the initiative and contact the interviewer after their meeting. A follow-up letter should be written soon after the interview. If the interviewer does not make contact after the interview or respond to the follow-up letter within a reasonable length of time, the applicant should call to emphasize his or her continued interest in the position.

Follow-Up Letters

Sending a follow-up letter is appropriate after submitting a letter of application, making personal contact (in person or on the phone), or coming in for a job interview. This letter is a tool used to thank the potential employer for his or her time, express further interest in the job (or an interest in any future positions), and maintain contact with the potential employer. Many people do not bother to complete a follow-up letter, so writing one may give an individual an edge in obtaining the job. Figure 9.1 is an example of a follow-up letter.

When sending a follow-up letter after an interview, the job applicant should begin by thanking the interviewer for his or her time and mentioning the interview in the first paragraph. In the second paragraph, the applicant should restate his or her interest in the position and reemphasize a few of his or her qualifications. The third paragraph should include a final thank you and indicate where the person who was interviewed can be reached.

Summary

Once some possible job opportunities have been identified, an individual must go through the process of applying for the position. A very important part of this process is the interview. Be prepared by doing background research on the company, practicing the interview, dressing appropriately, and being familiar with questions the interviewer may ask and possible responses to them. Follow up after the interview.

Credits

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Lesson 1:
Verbal and Nonverbal Communication

Effective communication skills are an integral part of everyday life, as well as agribusiness sales and marketing. To be truly effective at communicating, one must know and understand the main components of communication, which involves verbal, nonverbal, and listening skills. This section will discuss these skills and how to use them to become an effective communicator.

Verbal Communication

Verbal communication is any form of communication that consists of either spoken or written words. In agribusiness sales and marketing, it will form the content of a presentation. The salesperson must always be sure that the words correctly express the message he or she is trying to send. Spoken or written words need to inform the customer about the product or service that the salesperson is providing and persuade him or her to purchase it. Verbal communication is used to supply the customer with technical information, facts about features or benefits, and information about problems or concerns about the product. Lesson 2 will discuss in detail the forms of written communication, such as letters, memos, flyers, and visual aids. This lesson will focus on the spoken word.

A person in sales and marketing will find that spoken communication is used on a daily basis to conduct business. It is therefore important to the salesperson and the customer that technical and product-related terms are accurately used. The words that the salesperson uses and the manner in which they are used are the foundation for a solid business relationship with customers. Jargon, slang, or industry terminology must be used carefully to avoid confusing the customer. An effective communicator makes sure that the customer understands these terms. If this is not so, an entire sales presentation may be wasted because the customer is not receiving the message the salesperson is trying to send. In addition, salespeople must ensure that they do not become too technical and discuss the product at a level the customer cannot understand. They should also avoid discussing it in very simple terms that insult the customer's intelligence. A salesperson can alienate, annoy, or lose the interest of the customer if he or she goes to either of these extremes.

Effective Listening Skills

Like good spoken communications skills, effective listening is a crucial part of the communication process (see Figure 1.1). A salesperson must not only be able to speak well but also cultivate his or her listening skills, which can be vital to picking up the information needed to make a sale. One key in closing a sale is listening carefully to the customer's needs, concerns, and acceptance of being "sold." The salesperson must probe for needs, so that he or she can match those needs with the appropriate benefit that the product or service can provide. Customer concerns must be identified and appropriately addressed. Careful listening can give the salesperson signals about when to close the sale. He or she should not attempt to close before meeting all the customer's needs and concerns. The salesperson also does not want to extend the sales presentation past the point that the customer decides to make a purchase, thus wasting both the customer's and his or her own time and possibly annoying the customer.

A salesperson with effective listening skills is more aware of the customer's listening skills and anything that might cause a distraction that might hinder making a sale. Any distraction may cause the message either to not be received or to be received inaccurately. Four types of distractions may build barriers to the listening process that can hinder effective communication.

One type of barrier is distractions from the surrounding environment, such as the temperature, noise level, or personal appearance of the speaker. When making a sales presentation, select a comfortable, quiet environment. This is the first step in ensuring that the listener will receive the correct message. In addition, the salesperson must always be aware of his or her appearance. Wearing something unusual can distract the listener. Outrageous clothing, jewelry, or hair styles can prevent the listener from concentrating on the subject of the salesperson's discussion.

Distance or space between the speaker and listener can also affect listening. Standing or sitting too close to listeners can make them uncomfortable, but being too far away will make it hard for them to hear and concentrate on what is said. An appropriate distance should be selected for each situation and maintained throughout the presentation.

Figure 1.1 - Keys to Effective Listening

KEYS	GOOD	BAD
1. Distractions	- Concentrates on subjects - Avoids distractions	- Lacks concentration - Distracted easily
2. Level of Interest	- Listens for opportunities, asking, "What can I gain from this?"	- Tunes out uninteresting subjects
3. Rate of Speech	- Anticipates, summarizes, and listens to tone for feeling and emotion	- Has mental lapses/ vacations/daydreams
4. Delivery of Presentation	- Overlooks delivery mistakes and focuses on content	- Distracted by poor delivery
5. Search for Ideas	- Finds overall ideas and themes	- Listens only to detail and fact
6. Difficult Subjects	- Recognizes the importance of difficult material in expanding knowledge	- Tunes out difficult material - Prefers easier, light information
7. Listening Actively	- Concentrates on listening - Gives feedback (verbal and non-verbal) - Shows enthusiasm	- Fakes attention - No feedback - Lacks enthusiasm
8. Emotional Content	- Does not react to emotional words or terms - Does not let it be a distraction	- Negative reaction to emotional words or terms
9. Note Taking	- Minimal, concise notes taken - Uses appropriate system for each presentation - Uses memory triggers	- Goes by memory only or takes extensive notes
10. Response and Evaluation	- Does not judge the speaker - Waits for the conclusion of presentation	- Looks for an argument - Jumps to early conclusions

Another barrier to effective listening is that the listener may not be physically or mentally prepared to be a good listener. In either case, the customer does not have the energy to be an effective listener. The salesperson should postpone the presentation, if possible; if not, then he or she must give special attention to the way the presentation is made. The salesperson may want to write down more things for the customer than he or she normally would.

The last barrier to effective listening consists of content distractions, which include bias for or against a subject, unfamiliar terminology, poor organization, and poor delivery.

- Bias for or against the subject can hinder effective listening. A bias is the opinion or feeling the listener already has about the subject. A customer may have a bias about the subject that colors how he or she perceives that subject and distracts him or her from the salesperson's message. The salesperson must strongly emphasize the facts about a product to overcome bias against it.

- Terminology can distract the listener if he or she does not understand the terms used. If the salesperson uses complicated or new industry terminology, customers may not be familiar with these words. They may take a mental "vacation," trying to figure out what that term means, or they may become annoyed. Either way, the customer is no longer listening carefully to the presentation.

- A disorganized presentation can confuse a listener, clouding the message the salesperson is trying to convey. The presentation should flow logically so the customer may follow it more easily. The salesperson also wants to organize information in a manner that will be interesting to the customer in order to keep his or her attention.

- Delivery consists of a combination of the terminology used, rate of speech, tone of voice, and nonverbal elements (i.e., hand gestures, facial expressions, and body language). The delivery can keep the attention of the listener if it is well planned. However, poor delivery can distract the listener from the content of the presentation.

Being able to give and receive feedback is an important part of effective listening. It can be vital in making a sale. When the salesperson is listening, he or she should give feedback to the customer by nodding, commenting to reaffirm ideas (such as "Yes," "I understand"), and rephrasing the customer's idea to make sure they are on the same wavelength. While talking, the sales representative should look for these same signs from the customer. The most important aspect is to confirm that the customer has received the correct message. If a customer does not attempt to rephrase what has been said, the salesperson should try to get him or her to ask questions or make comments to see if he or she understood the message.

Nonverbal Communication

Nonverbal communication is anything other than the spoken or written word used in the communication process to convey a message from sender to receiver. Forms of nonverbal communication include facial expressions, gestures, body language, dress, rate of speech, tone of voice, and eye contact. Nonverbal communication may help or hinder communication, depending on the manner in which it is used.

Facial expressions include a smile or frown, raising an eyebrow, or wrinkling the forehead, to name only a few. Gestures are motions made with the body, such as placing a hand on a hip, clenching a fist, or moving the hands while speaking. Some examples of body language are posture, stance, and body position (i.e., leaning forward or back). Dress refers to the care with which a person dresses and the appropriateness of his or her dress. Rate of speech is the speed (quickly or slowly) at which the words are spoken. Tone of voice is the pitch at which words are spoken (e.g., shrill, monotone, loud, or soft). Eye contact refers to looking someone in the eye instead of looking down or off into the distance.

Nonverbal Communication Skills and Sales

Nonverbal communication is a large part of the communication process. The salesperson can use a knowledge of nonverbal communication in two ways: to reinforce his or her own message in order to influence the customer or to interpret the customer's attitude. Nonverbal communication by the salesperson can affect the message sent to the customer in both positive and negative ways. Salespeople need to use it to help convey knowledge, confidence, enthusiasm, and sincerity to the customer, all of which may be vital in closing the sale. Nonverbal communication by the customer is also important. If a customer shows definite positive signs of interest (nodding, smiling, making eye contact, leaning forward) during the sales presentation, his or her behavior may be an indicator of receptivity to the close of the sale. If the customer shows little or no sign of interest (tapping fingers, turning away, leaning back, frowning, avoiding eye contact) then the salesperson may not have identified the customer's needs and the benefits of the product or service correctly. However, the customer may also simply be having a bad day. At this point, the salesperson can reevaluate the approach used in the presentation or its timing to try to avoid losing a sale.

Facial expressions reveal feelings. For example, raising the eyebrows may mean surprise or interest, while a furrowed brow may show concern or a bad mood. A smile generally shows acceptance, while a frown indicates disapproval or disbelief.

Gestures may be used to emphasize the points of a presentation; they may also reveal attitudes. In making a presentation, the salesperson should use hand gestures, especially when emphasizing specific points. Salespeople must be careful not to be overzealous in the use of hand gestures because they may seem too flamboyant or out of control. Controlled, specific, yet natural gestures are usually the best. Gestures also can help a person read someone's attitudes and feelings. For example, a hand on the chin or side of the face usually expresses thought, whereas tapping the fingers shows boredom or impatience. Clenched fists are a sign of anger or frustration, and crossing the arms is usually a defensive move.

Body language can also show a person's level of interest in a subject. Leaning forward generally expresses interest, but leaning back shows limited interest or the need to separate oneself from the subject. Good posture conveys confidence, whereas slouching may indicate that a person is tired, frustrated, or lacking confidence.

The way a person dresses can communicate his or her attitude. For example, dressing sloppily for a business meeting can indicate a lack of respect for the other person. Overdressing can make the other person feel inferior.

Rate of speech is especially important to the salesperson. The appropriate speed makes the presentation interesting and easy to understand. Talking too slowly allows the customer to become uninterested and easily distracted, while talking too rapidly makes it hard for the customer to grasp the main points of the presentation. It is also important to pay attention to the rate of speech of the customer because it can indicate his or her level of interest and attention. If the customer speaks slowly, his or her interest level may be low. The salesperson must then try to increase interest in the product.

Tone of voice can greatly affect how a message being sent or received is interpreted. For example, a monotone voice indicates little interest in or excitement about the subject, even if the content of the words suggests otherwise. Moderate fluctuations in the voice can stress important points, directing a listener's attention to them. A loud voice suggests confidence, excitability, or great interest, while a soft voice implies a lack of confidence, timidity, or little interest in the subject.

Eye contact is *vital* to good communication. Eye contact or a lack of it reveals the level of trust, confidence, and honesty of the people involved in the communications process. Common wisdom says, "You can't trust someone with shifty eyes." Most people share this perception. If they are going to have a relationship of any kind with another person, they want to be able to look him or her in the eye so they can feel that they have established a level of trust. Remember, however, that looking someone in the eye does not mean "staring down" the person. Good eye contact is consistent, not constant.

The salesperson should always keep in mind that while he or she is using nonverbal cues to "read" what the customer is thinking or feeling, the customer is reading him or her in the same way. Therefore, salespeople must always be conscious of what they are doing and how the customer may perceive these things. The nonverbal skills that a salesperson uses will have a huge impact on the message the customer receives and the image he or she forms of the salesperson.

No single nonverbal sign should be taken as an absolute. The salesperson must observe all of the signs and listen to what the customer says to figure out the appropriate message. For example, imagine that a seed company salesperson is talking to a customer about a new hybrid line that the company is going to have available for the next planting season. Samantha found Joe, a farmer, working on equipment in an unheated shed. As Samantha is talking, she notices that Joe has crossed his arms. She has to consider the possibility that Joe is not open to the idea of being a trial farm for the new hybrid seed. If this were the case, Samantha might need to go back and try to find weak areas in her presentation before trying to resell the seed to Joe. However, she had noticed earlier that the shed was unheated. When Joe crosses his arms, Samantha must decide if he is truly not interested in the new hybrid or is simply cold and trying to stay warm. To make this decision, she must obtain some verbal feedback from Joe to find out if he is having a problem with the product. Depending on Joe's response, it may become evident that he is just cold.

Summary

A person must develop communication skills to be successful as a sales representative. Verbal, listening, and nonverbal skills are the most powerful tools a salesperson will use in his or her career. Salespeople must be able to write and speak correctly, listen well and identify any distractions to listening, and recognize and use nonverbal communication.

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Lesson 2:
Written Communication Skills in Agribusiness

Verbal communication consists of both spoken and written communication. Written communication skills are used frequently in the sales process and can be very effective if utilized properly. Several forms of written communication are used in the sales process. This lesson will discuss the different forms of written communication, their importance, and how to write an effective business letter and memorandum (memo).

Forms of Written Communication

Written communications used in agribusiness take several forms. The more commonly used forms are letters and memos, sales proposals, reports, product analysis/information sheets, manuals, bulletins and flyers, and demonstration materials. The format used by a salesperson depends on the situation and the type of information that he or she needs to convey.

Letters and memos (which are briefer and less formal than letters) are often used as part of the sales process. They may inform customers about existing or future products or about changes in the company, such as payment plans, ordering policies, or special discounts. Letters and memos can be sent to specific individuals or mass mailed to all customers and potential customers. Within the salesperson's company, memos are usually used to supply information to coworkers and superiors.

Sales proposals are prepared before the sales presentation so that the salesperson can organize the material and ensure that all relevant information is included. In the sales proposal, the salesperson outlines how he or she is going to present the product. Sales proposals should contain the product description, use, price, and other positive information about the product.

Reports may be internal or external. Internal reports will be directed to superiors or other salespeople within the company. They usually describe the sales representative's activities, progress on individual projects or with customers, and future targets for sales. External reports are written for current or potential customers. These reports are used to update customers about activities concerning the product or service that they are using, new products or services that will be on the market, or any changes in the company that will affect them.

Product analysis/information sheets contain specific information about a limited number of related products. This form of written communication can provide the customer with information about cost, effectiveness, useability, and popularity of a product with consumers. Product analysis/information sheets can be sent to a customer by mail, but they are more likely to be effective when presented with a one-on-one presentation. The presentation will allow the salesperson to help the customer appropriately interpret the information and immediately deal with any objections that the customer may raise.

Manuals contain detailed information about the sale, use, or promotion of a product. Salespeople may receive manuals from the company to aid them in the selling process. They may pass these manuals on to the customer, or the salesperson may use them to write his or her own manual for the customer. Manuals are especially helpful when the company has developed a new product or service or made a change in an existing product or service.

Bulletins or flyers are usually sent by mail to customers. They are used to inform a customer about a product or service, price changes, or upcoming events that the company is sponsoring.

Another form of written communication is demonstration materials. Demonstration materials include charts, graphs, or other materials a salesperson would use during a presentation or demonstration. They should emphasize positive points and important facts about a product or service.

Most of the types of written communication used in agribusiness are produced with computers or word processors. Using one of these machines is generally the easiest way to write them, since the information produced can be saved and reproduced later for reference or use. Formats for various documents can also be saved, which reduces production time when a similar document has to be produced. Finally, computers allow a salesperson to compile charts and graphs easily.

Importance of Effective Written Communication Skills

One reason that effective written communication skills are important is because written communication is used to support the oral part of the sales presentation. The salesperson should keep in mind that written communication is the most effective way to make a sale with some customers. Many people prefer to see information on paper rather than hear about it in an oral presentation. Also, written communication presents information in black and white, which may make it easier for the customer to absorb and retain that information. A final advantage to the use of the different forms of written communication is that customers can often keep them and review the information later, thus allowing them to become more familiar with the product or service.

In general, using written information reduces the chance of a misunderstanding between the salesperson and customer about a product or service. As discussed in the last lesson, the message that the salesperson is trying to send and the message that the customer receives may not always match in spoken communication. When written communication skills are used effectively, a sales representative can make the correct message more clear to the customer.

Forms of written communication such as letters, memos, and bulletins are important in agribusiness sales because they allow salespeople to maintain contact with customers through the mail. Effective written communication skills are crucial in using them well. Many agribusiness salespeople have large territories, sometimes covering eight to ten states. They are not able to make frequent visits to current customers. Therefore, a salesperson must use written communication. Not allowing customers to feel ignored or neglected is very important because they may choose to find a new source for the product or service with a representative who is more readily available.

Written communication can only be effective in fulfilling each of these functions if it is done properly. As in spoken communication, a concise format, appropriate terminology, and accurate information should be used so that the customer can easily understand the message. The salesperson does not want the written information to be too complicated because much of this information will be reviewed when the salesperson is not present, and the appropriate message must be easy for the customer to recognize. A concise, easy-to-read format should therefore be used in all written communications. Salespeople should avoid jargon, slang, and large amounts of technical terminology. The information must be accurate so that it does not conflict with what the customer already knows or with something the salesperson says. Making sure that data, quotes, and prices are correct is important.

When using written communication, the salesperson must proofread the material carefully. Errors in spelling, punctuation, and grammar reflect poorly on the salesperson's professionalism and competence. Customers may not take the salesperson or his or her company seriously if written communications contain errors. *Proofreading is extremely important.*

Components of Business Letters and Memos

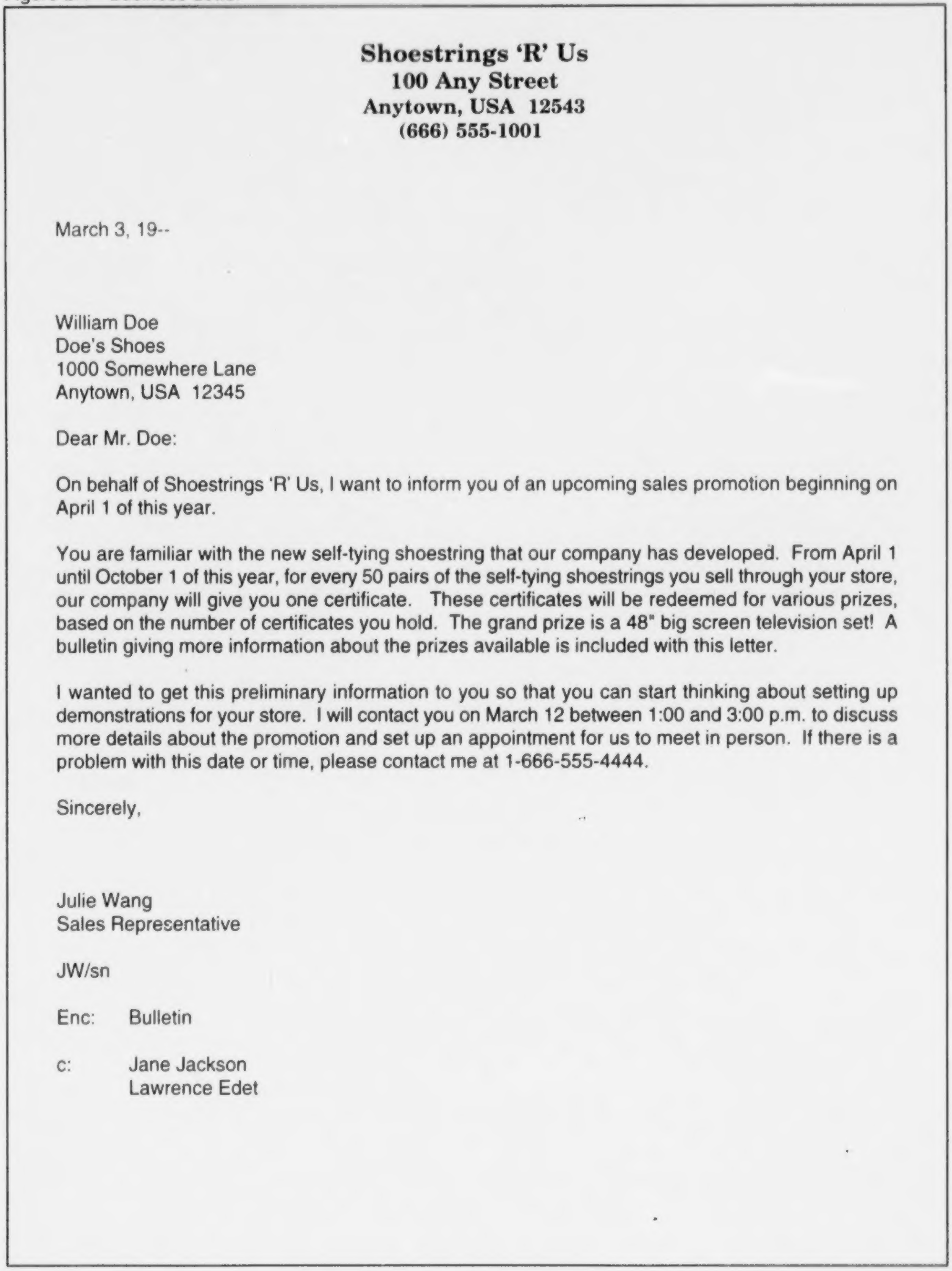
To be able to put together an effective business letter or memorandum, the salesperson must know the components of letters and memos. A business letter is illustrated in Figure 2.1. Business letters are generally done in block style. In block format, each line of the letter begins at the left margin.

Date - Letters should be sent on business stationery with a letterhead that includes either the salesperson's or the company's name, address, and telephone number. If letterhead stationery is not available, type this information centered at the top margin. Type the date four to six lines below the sender's address.

Inside address - After typing the date, space down four times and type the inside address. The inside address includes the recipient's name, title, company, and mailing address. In sales, targeting a specific person to whom to address the letter is crucial. Before the salesperson writes, he or she *must* be sure of who is in charge. If the letter is not sent to the decision maker of the company, the effort of writing it may be wasted, since it may never reach the person who will decide whether to buy the product or service.

Salutation - The salutation is the greeting at the beginning of the letter. It is double-spaced below the inside address. The salutation should begin with the word "Dear," followed by a courtesy title (e.g., "Mr., Ms."), the recipient's last name, and a colon. The recipient's first name should not be used unless

Figure 2.1 - Business Letter



Shoestrings 'R' Us
100 Any Street
Anytown, USA 12543
(666) 555-1001

March 3, 19--

William Doe
Doe's Shoes
1000 Somewhere Lane
Anytown, USA 12345

Dear Mr. Doe:

On behalf of Shoestrings 'R' Us, I want to inform you of an upcoming sales promotion beginning on April 1 of this year.

You are familiar with the new self-tying shoestring that our company has developed. From April 1 until October 1 of this year, for every 50 pairs of the self-tying shoestrings you sell through your store, our company will give you one certificate. These certificates will be redeemed for various prizes, based on the number of certificates you hold. The grand prize is a 48" big screen television set! A bulletin giving more information about the prizes available is included with this letter.

I wanted to get this preliminary information to you so that you can start thinking about setting up demonstrations for your store. I will contact you on March 12 between 1:00 and 3:00 p.m. to discuss more details about the promotion and set up an appointment for us to meet in person. If there is a problem with this date or time, please contact me at 1-666-555-4444.

Sincerely,

Julie Wang
Sales Representative

JW/sn

Enc: Bulletin

c: Jane Jackson
Lawrence Edet

the salesperson is on familiar terms with that person.

Body - Following the salutation, double-space and begin the body of the letter. The body explains the purpose of the letter. Double-space between the paragraphs of the body.

The body should begin with an *introductory paragraph* that briefly states the sales representative's purpose for writing. Be sure to state its purpose clearly and concisely to make sure unnecessary information will not distract the recipient.

The letter continues with *body paragraphs* that more fully explain the purpose of the letter. Include any relevant facts or information but avoid giving unnecessary details. If the salesperson is familiar with the recipient's personality, he or she should tailor the content of the letter to match it to make the letter more interesting to the reader. An attention-getting item that is directly related to the purpose of the letter may be included to help get the customer excited about the topic, even if the salesperson is not present to motivate him or her directly. For example, if the company is going to offer a sale or discount or introduce a new feature or product, this information could be included to attract interest.

A *closing paragraph* ends the body of the letter. After discussing the purpose of the letter, the salesperson should close by setting a specific time and method for him or her to contact the recipient personally to discuss its contents further. The closing paragraph should also include the sales representative's telephone number in case the recipient needs to contact him or her.

Close - The close is double-spaced after the body of the letter. It indicates that the writer has finished. "Sincerely," which should be followed by a comma, is the most appropriate closing for business correspondence.

Writer's identification - After the close, space four times to leave room for the signature. The salesperson's name and title should appear below the signature.

Reference initials - If someone else types the letter, the writer's and typist's initials should be included at the bottom of the letter. Double-space after the writer's identification and type the initials, separating them with a slash. The typist's initials should be lower-cased.

Enclosure notation - If separate materials are enclosed with the letter, indicate it by double-spacing after the reference initials, typing "Enc.:", and listing the items included.

Copy notation - When copies of the letter will be sent to other people, double-space after the enclosure notation and type "c:" followed by the names of the people receiving copies.

The format of a memo is much simpler than that of a letter. A sample memorandum is provided in Figure 2.2. This memo shows one possible format; different formats are possible.

Recipient - Like a letter, memos should be sent on stationery with a letterhead. If letterhead stationery is not available, type "Memorandum" or "Memo" at the top margin. Space down four to six times and type "To:" and the name of the person who will receive the memo.

Sender - Single-space and type "From:" and the sender's name.

Date - Single-space again and type the date of the memo.

Subject line - The subject line indicates the topic of the memo. It is single-spaced after the date. Type "Subject:" followed by a short description.

Message - Double space after the subject line and type the message. The message, like the body of a letter, explains the purpose for writing. Cover the most important information first, followed by less important items. Because a memo should be brief, any additional information included must be relevant to the topic.

Reference initials - If someone else types the letter, the writer's and typist's initials should be included at the bottom of the memo, as in a business letter.

Copy notation - If copies of the memo will be given to other people, double space after the message and type "c:" and the names of the people who will be receiving a copy.

Figure 2.2 - Memorandum

Shoestrings 'R' Us
100 Any Street
Anytown, USA 12543
(666) 555-1001

To: William Doe
From: Julie Wang
Date: April 1, 19--
Subject: Price change on JX-7 shoestrings

Due to an increase in business costs for manufacturing and shipping of our JX-7 shoestrings, the price will increase from $ .58 to $ .60. This increase correlates with the rise in costs. I hope that the price increase will not have a severe impact on sales. Please contact me immediately at 1-666-555-4444 if you have any questions or concerns.

JW/sn

c: Jane Jackson
Lawrence Edet

Summary

Written forms of communication are an essential part of the sales process. A salesperson will need to use these different forms. To express professionalism and competence, a sales representative must know how to complete the various forms of written communication correctly. Effective written communication skills are important because written communication is used to support the oral part of the sales presentation, to reduce the chance of a misunderstanding between a salesperson and customer, and to maintain contact with customers through the mail.

Credits

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Steward, Keith. *Marketing Led, Sales Driven.* Oxford: Butterworth-Heinemann, Ltd., 1993.

Lesson 3:
Using Communication Technology

Communications technology is becoming more advanced. Today's salesperson must keep up with the changes so that he or she can work in the most efficient manner possible. This lesson will discuss the more common types of electronic communications systems used today. However, keep in mind that technology is dynamic, so what is in use today may not be tomorrow.

Electronic Communications Systems and Their Uses

Several different types of electronic communications systems may be used in agribusiness, depending on what is available to the salesperson and the personal preferences of each person or company. Some more commonly used types are voice mail, facsimiles, computers and word processors, e-mail, Internet, Intranet, and, most frequently, the telephone or cellular phone. Media such as videos and television are less frequently used, but are still valuable in some situations.

Voice mail, an electronic telephone answering system, is used in many organizations. Each person in the company has his or her own voice "mailbox" number. Incoming calls may be routed to this number so that callers can leave a message for that employee, as they would with an answering machine. However, voice mail can also be used to record and send messages to another person or to a group of people who are on the system. Voice mail may thus be implemented internally or externally. Internally, voice mail is used between upper and lower management and field sales staff to keep all parties informed of current activities, changes, or news. Externally, companies may use voice mail to take messages and orders and confirm upcoming activities for customers.

Facsimile, or fax, machines are widely used today. This machine translates written material into signals transmitted over the telephone lines and prints a copy based on the signals received from other machines. Anything that a salesperson might mail may be sent over the telephone lines to another fax machine. It provides a faster, more efficient way to send correspondence to a customer.

Most salespeople, their companies, and often their customers use computers and word processors. Sales representatives most frequently use computers to type reports, create spreadsheets, store product and customer information, develop time schedules and calendars, and produce graphs, charts, and other visual aids. Each of these functions aids the salesperson in more effectively covering his or her sales territory.

E-mail, or electronic mail, is also used internally and externally in the sales profession. Companies that use computers and have e-mail software capabilities can send reports, messages, and other information from one employee to another through e-mail. If customers have computers and a modem, sales representatives can send them product information such as price changes and discounts. However, the salesperson should use e-mail with care because information should preferably be given personally (i.e., by phone call or personal visit).

The Internet is becoming a powerful force in the sales industry because it allows people to retrieve information easily and communicate with others. The Internet is a web of networks that connects computers. The World Wide Web, which consists of files with text and graphics, is one part of the Internet. A salesperson may use the Internet to get the most current information about what is going on in an industry, the government, or other areas that could affect the company or its customers, the product, or future sales of the product. Also, the ability to communicate with others on the Internet can allow a salesperson to develop new ideas about sales, people skills, and selling obstacles by discussing these issues with salespeople all over the world.

An Intranet is an internal information system that is based on the same technology as the Internet. The computers of all the users within a company are connected to a central computer interface, forming a network that people outside the network cannot access. Many different types of company information can be shared between all the members of the network. For example, policies and employee training manuals can be put on-line so that employees could access them from their individual computers. Salespeople could pull presentations and marketing information off the network. The Intranet can also connect to the Internet to access outside sources of information.

While these communications systems are helpful, the telephone is the salesperson's most useful selling tool. Wireless telephone technology, in which radio waves carry a signal from a cellular phone to an antenna that connects to landlines or other wireless phones, has made it possible to use the telephone from any location. A salesperson can use his or her office phone or a cellular phone to perform a number of different functions. Setting up and changing appointments, prospecting for new business, following up on sales, and maintaining customer relations are only a few of the tasks done over the telephone.

To make the most effective use of time, a salesperson tries to set up appointments by telephone with both established customers and prospects. In agribusiness sales, a single salesperson may cover a large territory. Salespeople want to reduce the possibility of driving a long distance and then not being able to meet with a prospect or customer. They also do not want to arrive unannounced when it is inconvenient for the customer. If a salesperson simply shows up, the customer may feel pressured to meet with him or her and may then not be in the right frame of mind to purchase the product or service. He or she also may find this unexpected arrival rude and discourteous, which will decrease his or her respect for the sales representative. Calling ahead to schedule a meeting is best for both the salesperson and the customer.

Occasionally, salespeople may have an unexpected stop or emergency that throws them off schedule, causing them to be late or miss a meeting entirely. If the salesperson will be unable to meet as scheduled,, he or she should call the customer to inform him or her of the problem. Be considerate of the customer's feelings if he or she acts inconvenienced or upset. Work with the customer to find the best time to reschedule, whether later that day or another time. If possible, try to confirm a date and time immediately to prevent the customer or prospect from backing out of the appointment later.

Employing the telephone to prospect for new customers is cheap and effective if done correctly. Lists of potential customers can be obtained from many sources. These lists can be random names or specific individuals who have an interest in a product or service. Using the telephone in an appropriate way can enable the salesperson to decide whether a person is a valid prospect. The salesperson can find out if this person shows any interest in the product or service and whether he or she can purchase it, identify the person who will make the decision about the purchase, and, hopefully, set a time and date for a face-to-face meeting to discuss the product further. He or she must be careful not to reveal too much information about the product, because that may give the potential customer the ammunition to say "no" before the salesperson has a chance to give the full sales presentation face-to-face. Give the prospect enough information to present a well-rounded picture of the product and to spark interest, then stop and attempt to make an appointment.

Telephone calls can also be very beneficial in the post-sale follow-up. Most salespeople do a follow-up interview one or two days after the sale was closed. This follow-up is used to express appreciation for the customer's patronage and confirm order amounts and delivery times. This courtesy leaves the customer with a positive outlook about the salesperson.

Telephone calls can help maintain customer relations, which are an important part of the sales process. If the customer does not like the sales representative, he or she is less likely to do long-term business with that representative and company. If a salesperson has a large territory, frequent visits to each customer are impractical. Regular (perhaps weekly or biweekly) telephone calls to customers keep the salesperson and the customer informed of any changes or problems that need to be addressed before the next visit.

The salesperson can perform these functions from his or her office or cellular phone. Setting up appointments, prospecting, following up on sales, and maintaining customer relations are generally done from the office. Salespeople should designate certain days and times each week to make these calls. Some of the above calls can be made on the road from the salesperson's cellular phone, if the company provides one, but calling from the office is ususally more economical. The salesperson must therefore weigh the time management benefits of making calls on a cellular phone against the expense of the call. Usually, the more mileage covered in the sales territory, the more the cellular phone is used. The main use for a cellular phone is to notify customers of an appointment change.

Telephone Etiquette

Proper etiquette should be followed when using the telephone in any part of the sales process. Out of courtesy to the customer, these rules of conduct should guide the salesperson's use of the telephone.

- If possible, find out the name of the person who makes decisions about purchases before making the call, and ask for him or her when calling. The salesperson should not settle for a subordinate because it will probably be a waste of time for both of them. If the salesperson has not identified the decision maker before the call, then he or she should ask the person who answers the phone the name of the person in charge of making purchasing decisions.
- Never be rude or degrading when talking to support staff. They may later block the salesperson's access to the decision maker.
- Once the correct person has been reached, inform the customer about the call. Let the customer know how much time the call will take and check whether he or she is free. If the customer agrees that he or she has time for the call, state the purpose of the call.
- Keep telephone calls short. Salespeople must keep in mind that their phone calls are intrusions into the customer's day, so they should take as little of his or her time as possible. The length of a call will depend on its purpose and the customer. The customer should never have time to become bored or impatient with the salesperson.
- *Briefly* discuss the purpose of the call. Give the customer or prospect limited but complete information. Limited information should be presented because if all the information was covered, a face-to-face sales presentation, which is more likely to be successful, would have no purpose. However, the salesperson must give complete information so that the customer or prospect is well informed and develops an interest in the product.
- While supplying the customer with information, the salesperson must listen for feedback, both positive and negative, to decide if this person is a possible sales candidate. For example, having the customer or prospect ask questions that reflect a positive perspective on the product or service and the salesperson is a good sign; if he or she is "grilling" the salesperson about the negative aspects, the prospect of future sales is not as great. Listening for this type of feedback can benefit the salesperson by allowing him or her to determine whether to pursue this sale further.
- The salesperson should close the call by concluding the purpose (i.e., asking for and setting an appointment). It is a good idea to check with the customer or prospect to confirm that he or she is leaving the telephone call with the appropriate understanding of the message. The salesperson should restate the purpose of the call and listen for agreement or affirmation from the customer.
- Always use a pleasant voice. On the telephone, the voice is the only tool for making an impression on the customer. The salesperson has to think about what he or she sounds like to the other person. A sales representative should not talk too loudly or too softly. However, he or she must also avoid speaking in a boring monotone. The salesperson should speak with controlled expression.
- *ALWAYS BE POLITE!* Manners are an important consideration in using the telephone. Do not interrupt the customer. If the customer or prospect is doing a lot of talking, the salesperson may want to interrupt. However, if he or she does so, the customer may feel that the salesperson is dominating the conversation. While talking to a customer, do not be rude or pushy. Avoid hanging up on the other person. When the salesperson achieves the purpose of the call, he or she should let the customer or prospect hang up first. Doing so will prevent any possibility of accidentally cutting off the customer that could leave him or her with the impression that the salesperson is rude.

Summary

Communications technologies are rapidly changing and improving, and a successful salesperson must keep up with the changes. Depending on the market, the product, and the individual sales representative's preferences, different electronic communications systems will be used. The most commonly used form of communication is the telephone. A salesperson must know proper telephone etiquette and be able to use the phone effectively in the sales process.

Credits

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Lesson 1:
Selling Environments

In agribusiness sales, a salesperson can work in different markets, or selling environments. For example, he or she might sell corn to a business that will process it into a final product for use by consumers and also sell a product directly to the final consumer. Because so many options are open to salespeople, they must be familiar with the characteristics of the different environments and the sales representatives' duties in each environment.

Selling Environments

Most agribusiness salespeople work in one or more of four types of selling environments. The four types are retail, wholesale, processing/industrial, and direct sales.

Retail sales is a market in which a product is sold directly to the final consumer. Examples of retailers include feed stores, lumber yards, hardware stores, and implement dealerships. Wholesale sales is a market in which the wholesaler purchases a product in bulk with the intention of dividing it into smaller portions to sell to retailers or directly to the final consumers. Wholesale clubs (like Sam's Wholesale Clubs) and feed distributors are examples of wholesalers. Processing, or industrial, sales is a market in which a salesperson sells either services or inputs like raw materials or processing equipment to a manufacturer to produce a saleable product. Grain elevators, feed mills, and implement manufacturers make industrial sales. Direct sales are made by the salesperson directly to the final consumer at the consumer's home or business. This selling environment includes door-to-door sales for products such as insurance and direct feed or seed sales. Direct sales can also take place through the Internet. Many companies have a web site on which orders for products can be placed.

The Salesperson in Retail Sales

The agribusiness salesperson involved in retail sales will most commonly be dealing with an agribusiness retail store. The sales representative must call on the business frequently to maintain a good working relationship with its owners, employees, and customers. He or she is responsible for aiding the business in setting up sales promotions and advertising, educating its employees about products, and helping the business deal with customer complaints and questions.

Promotional work is a significant part of the duties of a salesperson in retail sales. The salesperson's company may have established standard promotions and advertising for all retailers for a new product, an existing product, or an improved feature of an existing product. The salesperson may also need to work with the retailer on an individualized promotion or advertisement specifically for that area. In either case, the salesperson is the person who is most knowledgeable about the product and its features and benefits; therefore, he or she should help the retailer with an appropriate promotion or advertisement for the product.

Educating the employees of a retail business about the salesperson's products is another important duty. He or she must make sure that all of the people who will be involved in the selling process fully understand the product, its features and benefits, and any selling techniques that have been successful in other locations. This knowledge will aid the employees in making sales to both new and existing customers.

Helping the retailer handle customer complaints and questions is probably the most common and difficult task for the salesperson in retail sales. A customer may have a problem with the results he or she obtained from the product. To try to salvage the possibility of future sales to this customer, the salesperson needs to deal with these complaints. The salesperson may need to give a refund for a faulty product or a discount on a future purchase. Besides dealing with complaints, the salesperson should always be available to the customer to answer any questions that he or she might have. Sometimes customers find information directly from a company representative rather than a retailer more reassuring. A further explanation of the product, its design, and its uses may clear up some consumer concerns.

The Salesperson in Wholesale Sales

The agribusiness salesperson's role in a wholesale situation is a little different from that in retail sales. The salesperson still needs to make frequent visits to the wholesaler, make contact with customers to answer questions or provide any support that is necessary, and attempt to make sales to the final customer or retailer. The actual sales made to the wholesaler are products sold in bulk that the wholesale business divides for resale. The salesperson will not be involved in any extensive promotional campaigns because a wholesaler generally does little advertising. For the sales representative, the biggest task is usually getting the orders placed and deliveries made quickly and accurately, so the wholesaler never runs out of the product to ship to retailers or customers. If the wholesaler does run out, the business may lose sales because it is perceived as an unreliable supplier.

The Salesperson in the Processing Industry

Sales to processors are generally quite different from wholesale or retail sales in that the salesperson is selling a product or service to help produce another product. In agribusiness, a salesperson could be selling inputs for production, like machinery, parts, and raw materials used to manufacture a product, or services, such as improved management or record-keeping techniques, used to improve the way the business is run. Usually, customers are not seen as often, since territories tend to be larger and more spread out. Actual sales occur infrequently but are large (in terms of the amount of money involved). The sales representative usually has to be more highly trained in the technical aspects of the product or service than he or she would be in other selling situations and prepared to answer very specific, detailed questions. This is especially true when the salesperson is selling equipment. The salesperson must know the machinery inside and out, answer questions, and act as a troubleshooter if the customer has any mechanical problems. The salesperson also generally deals with fewer products than in a retail or wholesale situation because he or she must focus on acquiring specialized product and market knowledge and because the sales process is usually time-consuming.

The Salesperson in Direct Sales

Agribusiness sales made directly to the final consumer are usually thought of as door-to-door sales. In this environment, the sales representative directly approaches the final consumer, or user of the product, at his or her location to make a sale. The salesperson's duties are similar to those applying in a retail sales environment: conducting sales promotions and advertising, educating others about the product, and dealing with customer complaints and questions. He or she is also responsible for making sales by performing sales presentations. Making sales includes such tasks as identifying the needs and motives of customers, understanding their buying situations, setting up the delivery, and explaining the use of the product.

Summary

Retail, wholesale, processing/industrial, and direct sales situations can all be found in agribusiness sales. Some sales positions may focus on one of these areas or may require the salesperson to operate in a combination of selling environments. The salesperson's tasks in each of these situations differ depending on the characteristics of the selling environment.

Credits

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Lesson 2:
Identifying Different Communication Styles

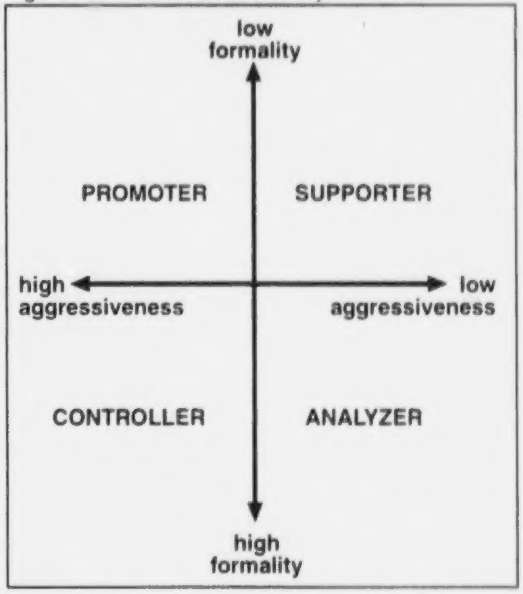
Each individual has his or her own personality, which affects the style in which he or she communicates and perceives messages from others. A salesperson must be flexible and adapt his or her personal style to that of the customer. This lesson will discuss the different types of communication styles, how to identify and understand them, and how to use this knowledge to conduct an effective sales presentation.

Types of Communication Styles

Communication styles reflect an individual's preferred mode of working and communicating with other people. They are generally separated into four categories, and every person falls somewhere within one of the categories. The four styles are analyzer, controller, promoter, and supporter. They are generally placed on a matrix to more easily represent the differences between the styles in regard to formality and aggressiveness, as shown in Figure 2.1.

The analyzer is lower on the aggressiveness scale and higher on the formality scale. Analytical customers prefer detailed data about the product. They take a substantial amount of time to digest information thoroughly and make a decision. Analyzers are inclined to show little emotion and are calm and quiet. They are generally task-oriented, generally preferring to focus on a task and work independently rather than work with other people.

Figure 2.1 - Communication Styles Matrix



Controllers are higher on the aggressiveness and formality scales. They prefer quick decisions and immediate action. People belonging to this communication type are task-oriented and extremely motivated, efficient and thorough, and very organized. They are also impatient and unemotional. The controller prefers to be in control of decisions and is often seen as a decision maker.

The promoter is inclined to be higher on the aggressiveness scale and lower on the formality scale. People with this communication style are often seen as enthusiastic, expressive, and energetic. They are people-oriented, preferring to work with people rather than work individually on a task, and are perceived as talkative. Promoters are creative. They are usually stimulated by their egos; they respond well to appeals to their reputation.

Supporters are usually low on the aggressiveness and formality scales. They are generally regarded as friendly, cooperative, open-minded, and empathetic. Supporters are people-oriented and are considered to be true team players.

None of these types of communication styles is "right" or "wrong." All of the categories include good and successful people. A successful salesperson must understand that people are different. The key to productively communicating with a customer, or, for that matter, with anyone, is recognizing the different styles and knowing how to approach individuals with each style. Effective communication depends on the ability of the sales representative to be *flexible*. Salespeople should not expect others to communicate with them in their preferred style. They should always assume that they will have to adapt to the customer.

The Importance of Understanding Different Styles

The salesperson needs to understand the different communication styles to relate to his or her customers better. The more knowledgeable the salesperson is about a customer's style, the more effective the sales presentation will be, because it can be customized. Customizing the presentation will make it easier for the customer to retain the information that the salesperson is conveying, since the presentation will be in the style with which the customer is most comfortable. Learning to identify, understand, and use the different styles will enable the salesperson to become more successful.

Communication Styles and Sales Presentations

Each communication style has certain characteristics associated with it, and the salesperson may study those and choose the approach most likely to win over each customer. Different approaches appeal to people with the various styles. Knowing the traits associated with each type and which approaches are preferable helps the salesperson prepare the presentation. Once the customer's style has been identified, the salesperson should adapt the presentation to it.

For example, if a customer is an analyzer, the presentation should include components that will appeal to him or her. This type of person likes to have very detailed information when making a decision, and the presentation should reflect this preference. A salesperson should appeal to the customer's desire for complete and accurate information, showing proof of reliable research, detailed reports, and guarantees. The information should be presented in a formal, businesslike manner rather than in a friendly, personal way. Analyzers prefer a presentation that takes a problem-solving approach, allowing them to study the idea before taking any action. They prefer to think through ideas slowly, which may be interpreted as hesitation. The salesperson should remember not to push analyzers to make a decision before they are ready, because that will usually cause them to back off.

The approach for customers categorized as controllers should take into account their formality and aggressiveness. They should be approached in a businesslike manner. The presentation should be direct and fast paced. It should also appeal to them by including information on saving time and money and by discussing the purchase in terms of "winning." Without overselling the product, the salesperson should be sure to cover all the facts to convince the customer that buying the product would be a good investment. Generally, overselling is very easy to do with this type of person if the salesperson spends too much time discussing the features and benefits of the product or service. A sales representative should cover points thoroughly and quickly and finish before the controller gets bored. The presentation should be focused on a choice or decision, over which the customer has control.

Promoters should be approached in a more informal manner. The salesperson should respond to the promoter's friendly personality and attempt to build a personal relationship. The presentation should be inspirational, stimulating, dynamic, and fast paced to keep the promoter interested in the material. To avoid losing the customer's attention, the salesperson should not overload the presentation with details or spend too much time on important points. The presentation should be imaginative to appeal to the customer's creativity. The salesperson can also appeal to the promoter's ego by stressing what the customer will gain with the purchase of the product, such as the benefits he or she could bring to his or her company.

Supporters should also be solicited with a presentation that appeals to their desire for a personal relationship. Since supporters prefer to establish a feeling of friendship and cooperation with the salesperson, the presentation should be casual and helpful to the customer. The salesperson should be specific when explaining features and benefits and walk the customer through them, explaining the positive results of a purchase. The sales representative should design the presentation to make the customer feel good. He or she should always avoid conflict because it would clash with the feelings of friendship that the customer prefers.

Summary

Understanding and being able to identify the different communication styles is important for successful sales. Each style has very distinct traits that are easy to recognize once a salesperson has been trained to do so. This training is one of the most valuable tools a salesperson can have; it can never be overused.

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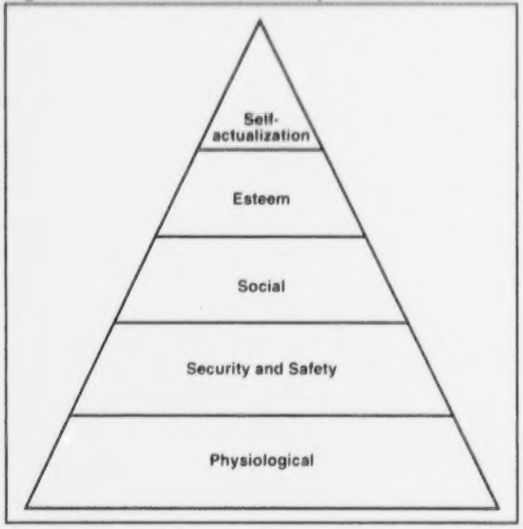
Lesson 3:
Motives for Making Purchases

Each human being has a hierarchy of needs that he or she wants to fulfill, and a salesperson must understand this concept to be successful in sales. Salespeople must also recognize the steps a customer goes through in deciding whether or not to make a purchase, so that they can adapt to these steps. Being able to identify the needs and wants of customers is important as well, because the difference between the two will affect the structure of the sales presentation.

Maslow's Hierarchy of Needs

Extensive research has been done to understand what factors motivate people to act. The psychologist Abraham Maslow developed the best-known theory. Maslow described what is now known as Maslow's Hierarchy of Needs. The hierarchy identifies people's needs and how their needs motivate them to act. His ideas are illustrated in Maslow's Pyramid (shown in Figure 3.1).

Figure 3.1 - Maslow's Hierarchy of Needs



The first and most basic needs of a human being are physiological needs. Included in this category are the things that a person *must* have to survive, such as food, water, sleep, and shelter. The next level is the need for safety and security, the need to feel both physically and emotionally safe. The third level is social, consisting of the need of an individual to feel as though he or she belongs to a group or society. The fourth level involves esteem, or a person's need to have self-respect and respect from others. The final level in the pyramid is the need for self-actualization, which is the full realization of personal potential.

Maslow's theory is based on the idea that people normally will not try to satisfy needs from the upper levels of the pyramid until they have satisfied lower-level needs. For example, if a customer does not feel financially secure (satisfying the need for safety and security), he or she will not respond to a sales presentation based on appeals to esteem. Esteem is simply not a factor when the customer feels that he or she is lacking in funds.

Salespeople must be aware of their customers' current needs, which will allow them to help the customers fulfill their needs so that they will be willing to make a purchase. Imagine that a salesperson is attempting to make a sale to a customer who is currently having financial difficulties. Since the customer is not going to want to make an unnecessary purchase, the sales representative may try different approaches. He or she may wait to try to make the sale until the customer is financially secure or attempt to help a customer with financial problems by offering advice about improving business activities, helping the customer find lending institutions that might grant a loan, or (occasionally) lending the customer money.

While this hierarchy cannot always predict the behavior of individuals, it does give the salesperson an idea of how to begin figuring out what is motivating the customer. Once the salesperson has identified the customer's level of need, he or she can motivate the customer to buy the product being offered. Suppose that a customer has fulfilled his or her lower-level needs (i.e., physiological and safety/security needs). The next step is to determine what other needs remain unfulfilled. At that point, one customer may be motivated by a need for esteem (rather than social needs). In that case, the sales representative should attempt to approach the customer with the idea that purchasing the product or service will be a good move financially and that others will view him or her as a superior businessperson for making such a purchase. Another customer may want to fulfill a social need. The salesperson's approach should therefore suggest that he or she would "belong" to a particular peer group if this purchase were made.

The sales representative might inform the customer of other people, such as friends or competitors, who have also purchased the product or service.

Deciding to Make a Purchase

People go through a process when deciding to make a purchase; although the process differs somewhat for each individual, the basic steps are the same for everyone. In this process, a customer identifies a need or a problem, possible solutions to the problem, and who might provide the solutions. He or she then decides what the best solution is and whether it is economical.

First, the customer must recognize that he or she needs a new product or perceive a problem with a current one. The customer must believe that a need exists, or he or she will not be motivated to buy anything. A salesperson can aid the customer in discovering a need, if necessary, but must be sure not to create the impression that a need exists when it does not. Identifying a need or problem that does not exist may initially trigger a sale, but this violation of trust could damage the sales representative's long-term relationship with the customer.

The next step has two parts. First, the customer identifies possible solutions; he or she then determines who can provide them. Customers may do this by talking to others with a similar need or problem to research what is working for them, looking at advertisements from various companies to see what is available on the market, and reviewing the experiences that they have had with a particular company, salesperson, or product. Sales representatives can help customers by providing information, answering questions, and customizing the product for the customer, all of which will build a better relationship between them. This relationship will influence the next step the customer takes.

The last step for the customer is to select the best solution. If a salesperson has a product that fits the customer's needs and has established a good relationship with him or her, the customer is more likely to purchase that product over a competitor's. The salesperson can attempt to convince the customer that his or her product provides the best solution by pointing out the product features that will most benefit that customer. Remember, a sales representative should not try to influence the customer's decision unless he or she believes that the product is truly the best solution, because doing so might destroy the customer's trust in him or her.

In order to select the best solution, the customer must analyze the economics of the solution. To be the best, the solution must be economical. Depending on the customer's current financial situation, product price can be a limiting factor in making a purchase. A customer may see the benefits of a more expensive product but may not be able to make a large purchase. The best product may not be the best solution for that particular customer.

Determining Wants and Needs

Determining the customer's wants and needs is a skill that is developed over time. A customer has a need if an item is something he or she has to have. A want is an extra, something the customer does not need but would like to have. Identifying the two is not as easy or obvious as it may seem, because often what the salesperson sees as an obvious need is not one in the customer's opinion.

Generally, a sale that meets a need is easier to make because the customer perceives the purchase as necessary, while fulfilling a want is usually not seen as vital. A salesperson must determine whether the customer has a want, a need, or both. The salesperson can then alter the sales presentation to adapt to that customer's motives. For example, if the salesperson knows that the customer needs the product, his or her job is to convince the customer that the product is the best one for him or her. However, if the salesperson identifies a want, the customer needs help justifying the purchase. The salesperson should try to show the customer that this product can benefit him or her.

The best way to determine a customer's true wants and needs is by asking probing questions that get the customer involved in a conversation with the salesperson. For example, the salesperson might ask the customer a question like, "What problems do you see with your current system?" If he or she can use such questions to get the customer to begin discussing problems and ways to solve them, the salesperson can begin to identify the customer's possible needs, wants, and motivations. After asking questions, the salesperson should give the customer enough time to talk. The more the customer talks, the more insight the sales representative will gain. The salesperson should be prepared to spend a considerable amount of time with the customer to learn about his or her needs, wants, and motivations. Once the salesperson has this information, he or she can start the sales process. A sales representative who is highly skilled in this process of identification is more likely to be successful in making a sale.

Summary

Different people make purchases for different reasons. A salesperson must learn to recognize where the customer is on Maslow's Hierarchy of Needs so the sales presentation can be structured to that level. It is also important for a salesperson to understand the steps a customer goes through in deciding to make a purchase so that the sales representative can provide the appropriate information for the customer. The salesperson must be able to determine the difference between a customer's needs and wants, because the sales presentation must be structured differently for each.

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Lesson 4:
Product, Company, and Industry Knowledge

Product, company, and industry knowledge is vital to the sales process. Without this knowledge, a salesperson cannot be successful, since his or her job is to educate customers in a positive way so that they are motivated to buy a product. To be competitive, salespeople must also be aware of their competition and of trends in the market that may positively or negatively affect customers.

Product Knowledge

Several types of product knowledge are necessary for the sales presentation. This information falls into four categories: general information, application information, maintenance information, and company support information.

Each of these four categories contains many details that the salesperson should know. For example, general information includes the number and types of models or styles available, the materials in the product and how it is made, price, discounts, size, color, packaging, product improvements, company history and reliability, and identifying characteristics, such as brand names and logos. Application information includes the use and capability of the product, instructions for operation, and performance standards. Maintenance information consists of data on the care and maintenance of the product, guarantees and warranties and their limitations, and maintenance and repair costs. Company support information includes credit options provided by the company, ordering policies, shipping policies and reliability of delivery, and training provided on the use of new products and systems.

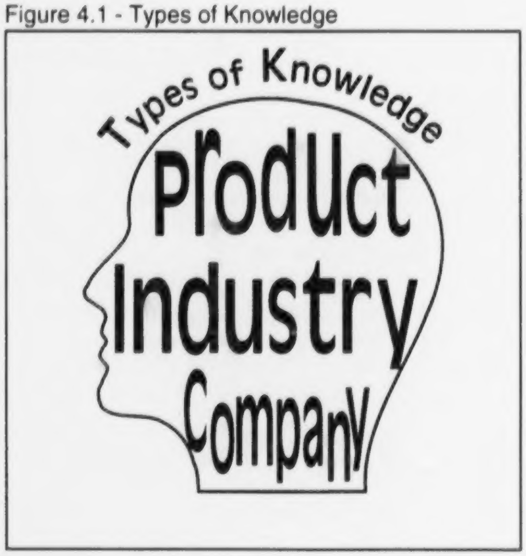
These aspects of product knowledge should be introduced to the customer during the presentation so that he or she is fully informed about the product and confident about the salesperson's knowledge and experience. If these items are not covered in the sales presentation, the customer is likely to raise questions about them. The salesperson should be well informed and able to answer any questions the customer might have.

Industry and Company Knowledge

Industry and company knowledge should be included in the sales presentation to inform customers about items and events that will affect them and their purchasing decisions and to convey the competence, knowledge, and reliability of the salesperson and his or her company. Industry knowledge that may be used in a sales presentation includes market trends in the supply of and demand for the product and the components used to manufacture it. Another component of industry knowledge is a knowledge of the products of competitors (which is discussed in greater detail in the next section). The salesperson might also discuss developments made or technologies being introduced into the industry that will affect buying decisions. For example, a sales representative selling a new drill that could apply herbicides or pesticides with great precision might learn that one of the major chemical companies would soon be releasing a new pesticide for soybeans that had to be applied in highly precise amounts. He or she would want to include this information in the presentation, because the drill might become a more economical purchase if the customer also bought this pesticide.

Company knowledge should also be used in the sales presentation. The salesperson should discuss the company's history and its standing within the industry, company policies, the reliability of the company and the product, and warranties and product guarantees. These items are important to

Figure 4.1 - Types of Knowledge



a customer who is considering whether to purchase a product. Customers want information about the company that they may be doing business with so that they have some sense of its reliability and professionalism. Customers are not going to do long-term business with a company that they do not know and trust.

Both industry and company knowledge should be included in the sales presentation, but they should not *become* the presentation. The salesperson is selling the whole package, but the most important part of that package is still the product and its features and benefits. The information about the industry and company is complementary to the essential information about the product. Without all these types of information, the presentation would not be complete.

Knowing Competitors' Products

Salespeople must be almost as familiar with their competitors' products as with their own. They cannot present their products in the best light if they do not know what they are competing against in the market.

Competent salespeople know the same type of information about competitors' products as they do about their own. Knowing competitors' products allows the salesperson to focus the presentation of his or her own product on the areas in which it has a definite advantage over the competition. In addition, the salesperson must be ready to answer any questions concerning the advantages of buying his or her product. For example, a customer may claim that he or she has been offered a discount price by a competitor. The salesperson must be familiar with these offers so that he or she is ready to emphasize other benefits of buying his or her product.

The Necessity of Product and Industry Knowledge

Sales representatives in any field must have an extensive knowledge of their product and the industry in which they work to aid in the sales process. The more knowledge a salesperson has, the more readily he or she can answer questions, identify product features or benefits, forecast future needs of the company and the customer, and understand trends that may affect future sales.

Product knowledge is vital when dealing with customers or prospective customers. The salesperson can use this knowledge to inform, provide advice and make suggestions to, and solve problems for the customer. He or she must have product knowledge not only to provide information but also to identify the product features that will provide the most important benefits for each customer. A salesperson cannot sell a product that he or she does not know and understand.

Industry knowledge is a necessity for a salesperson because it allows him or her to understand the attitude of customers toward competitors and the industry, what kind of and how much competition must be overcome to make a sale, and any market developments. The salesperson can then prepare for them. A sales representative needs to understand these factors to improve the success rate of attempted sales. The salesperson who is not aware of the market and competition cannot be fully prepared for a sales presentation.

Resources for Product and Industry Knowledge

A salesperson must know the best sources of information in the particular industry in which he or she works. Knowledge about both the product and the industry may be obtained in several ways. Resources will vary, depending on the industry. The salesperson must not be afraid to ask for help in finding product and industry information. Asking for help is better than going into a sales presentation without the appropriate knowledge.

Product knowledge is available from many sources. The most common resource for product knowledge is the salesperson's company. The company will provide information about the product, such as how it works, how and of what it is made, and its unique features. However, when using this source, a sales representative must remember that the information will be presented to make the product look as good as possible. Because of this slanted viewpoint, a salesperson may want to look at other resources for unbiased information about the product. These sources may be research reports from independent companies or universities, consumer reports, customer testimonials, newspaper or magazine articles, or even the salesperson's personal experience with the product.

Many sources of industry information are the same as those for product information. Industry knowledge can be obtained from the salesperson's own company. The company or other sales representatives within it can provide knowledge about the market, customers, and competition. This resource is extremely valuable because the company can supply information from its experience in the industry, such as how the product has done in the past and the most successful tactics for dealing with customers and the competition. Unbiased sources include research from independent sources, market reports, newspaper and magazine articles, and discussions of the market with representatives from other companies and with customers. A successful salesperson will look at several of these sources when studying the industry.

Utilizing Product, Company, and Industry Knowledge

Knowledge about the product, company, and industry is used to make a successful sales presentation. A salesperson who is knowledgeable in these areas will be more credible to the customer and will more likely be able to match features and benefits to each customer. The salesperson must gather all available information and then find the best details to use in the sales presentation. The information should be truthful, yet show the product in the most positive light possible. The salesperson should have as much information as possible and be prepared for customers' questions.

Product knowledge is important when making a sales presentation because the customer must be well informed about the product. Customers must be familiar with the product before they will decide to buy it. Also, the customer must be convinced that the purchase of this product will produce enough benefits to justify the cost, so the salesperson has to indicate the product features that will appeal to the customer. For example, a sales representative may be providing a livestock feed that has the same nutrient content as the product of the major competitor. However, his or her company can provide the feed in pellet form, while the competitor cannot. If this customer prefers to purchase pelleted feed, then this feature may be a selling point.

Company knowledge is also an important part of the sales presentation. Some of this information should be provided in the presentation, whereas some of it may be required to answer questions asked by the customer during the presentation. In either case, the salesperson must have a significant amount of knowledge, because it may provide important selling points. If the salesperson's company provides a financing option for larger purchases (and a competitor does not), the customer might choose it over the competitors'.

Industry knowledge is a vital part of the sales presentation. The salesperson is expected to provide the customer with information about the market, such as trends in supply and demand and new technologies that are being developed and implemented within the industry. Events occurring in the industry will affect the decisions made by customers. The salesperson needs to think through the industry knowledge that he or she has obtained and present any information that will be relevant to the customer making the buying decision. An example is a sales representative in retail sales who has evidence (such as a new ad campaign or a proven seasonal use increase) that the demand for a product is on the rise. The salesperson would inform retailers about this increase in demand so that they could use the information to decide whether and how much to buy.

When supplying industry information during a presentation, a sales representative should not directly mention competitors. First, he or she does not want to provide free advertising for the competition. Second, being critical of the competition may have negative consequences. The customer may be very loyal to the competition and become offended by critical remarks; the customer may also feel that the salesperson is implying that he or she is "dumb" for buying an inferior product. Products should be sold on their strong points, not on a competitor's weaknesses. Both colleagues and customers view talking negatively about a competitor or making a sale based on the competitor's weaknesses as very unprofessional. However, the salesperson must know the competition's strong and weak points and make comparisons to close the sale.

Summary

A salesperson must have product, company, and industry knowledge for two reasons. First, the salesperson must know this information so that he or she can select the appropriate information to include in the sales presentation for individual customers. Second, he or she must be able to explain information to the customer if the customer asks a question. Knowing all the important information about a product, what events are taking place in the market, and the competition and their products is vital for a sales representative hoping to make a sale.

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Lesson 5:
Identifying and Approaching Potential Customers

Identifying and approaching potential customers are the vital first steps in the sales process. Salespeople constantly search for customers. Once potential customers have been identified, they must be approached. The approach creates the customer's first impression of the salesperson and the company and, therefore, is very important.

Methods for Identifying Potential Customers

Salespeople can use several methods to identify potential customers for a product. This lesson will focus on the main methods used in agricultural sales. Sales representatives learn about new customers through their company, personal experience, other customers, noncompeting salespeople, public sources, and commercial sources.

The salesperson's own company will often give him or her a list of prospects. This list may have been compiled by the sales department, research department, a group of sales representatives, or other sources within the company. The sales department has a list of current customers; these customers are good prospects for any new product the company may be selling because they are already comfortable with the company. Some companies have research departments that will compile lists of prospective customers based on research done to find out who might need or want to buy the product. The company may also have meetings of sales representatives in which they brainstorm about possible prospects. Other sources of information are divisions such as the credit department or the service department. Credit departments have records of the credit accounts of current and past customers who may be excellent prospects. Service departments can also be a source of leads because they have records of repair requests by current customers. If a current customer has an older product that is being repaired frequently, he or she may be ready to make a new purchase. Any department within a company may have valuable information about prospective customers, so a salesperson must be aware of the possibilities that exist in his or her company.

The salesperson's personal experience in the field can be a valuable source of information about prospects. Some methods used to learn about potential customers are personal observations, cold canvassing, and telephone calls or direct mail. The first of these, personal observation, requires the sales representative to be aware of changes occurring within his or her territory. The salesperson can learn about changes by reading local newspapers, joining clubs or groups, and attending community activities or other events that place him or her in contact with people in the sales territory. This contact allows the salesperson to become aware of new prospects quickly. For example, a salesperson in the home siding business might discover a prospect at a club meeting, where he or she learns that a new family has moved to the area and bought a "fixer-upper."

Another way a salesperson can find prospects personally is through cold canvassing. In cold canvassing, the salesperson calls on a group of people in a particular area without considering whether they are good prospects. This process is called cold canvassing because it is done "cold," with no prior research or contact with the customers. It is usually thought of as door-to-door sales, but a salesperson can cold canvass an area with business cards or flyers. The idea behind cold canvassing is that if the sales representative gives enough people the opportunity to buy the product, he or she will eventually find a customer. Cold canvassing may uncover prospects not revealed through other sources.

Salespeople can also conduct personal searches for prospective customers through telephone calls and direct mail. Both are similar to cold canvassing, except that many times the lists of phone numbers and mailing lists come from some type of research that at least starts the process of qualifying them as potential customers. The salesperson using the telephone to search for customers calls people who could be valid prospects; the salesperson can then make a sales presentation over the phone to attract the prospect's attention and interest. Depending on the product being sold, telephone prospecting can be very successful. Direct mail is the process of mailing out information about sales, discounts, new products, or new features to gain interest from prospects. A mailing list, like the telephone number list mentioned earlier, can be used, or an entire mailing area can be covered. Retailers frequently use this method because direct mail can spark enough interest to get the prospect into the store, which will usually lead to a purchase. Salespeople can also use faxes to find customers in a variation on direct mail. Using lists of fax numbers, the sales representative can fax the direct mail information to potential customers.

Current customers can also help the sales representative find new prospects. Because customers know the salesperson, the company, and how the product performs, they may make referrals to good prospects among their friends, family, and business associates. Referrals can be direct, but sales representatives should listen carefully to their customers, because they sometimes offer subtle clues that a salesperson can pursue as well. Customers can also help the salesperson qualify a likely prospect by giving him or her insight into who the decision maker is, if the prospect is financially able to purchase the product, or if the prospect is interested in the product.

Two ways that the salesperson can obtain referrals from customers are through an endless chain or from a center of influence. The endless chain method is used when the sales representative asks a current customer for a list of names of people who he or she feels would be interested in a sales presentation. Getting a short list from each customer will give a salesperson a significant number of prospects. Centers of influence are people who have high standing within the community. They may be current customers or just acquaintances of the salesperson. They generally have many varied contacts who could be useful to the salesperson. He or she may learn of many prospects from a center of influence. If a center of influence is a customer, his or her business is an advertisement for the product. Their reputation in the community may attract people who wish to emulate them. Centers of influence may cause other people to consider making a purchase because they look up to them.

Current customers can also help gain the interest of prospects by giving customer testimonials. In a testimonial, a customer makes a statement about his or her satisfaction with the product so the salesperson can present it to prospective customers to help make more sales.

Noncompeting salespeople, both inside and outside the company, can help a sales representative to find prospects. Other salespeople may have contact with people within the sales territory interested in a particular product, and they can keep fellow salespeople informed about any new prospects. A salesperson should always try to reciprocate by passing on information.

Public sources, such as government agencies, can provide lists of names that a salesperson could find helpful when prospecting for new customers. For example, land purchases are public knowledge; a sales representative selling lawn care equipment can go to the county recorder and get the name of a new landowner who might be very interested in that type of product. Most of the information from public sources either is free or available for the cost of copying and shipping. However, the information included is at times both extensive and vague; it must then be recategorized to suit the salesperson's needs.

Commercial sources of information can provide more direct and focused lists of potential customers for an individual salesperson, but obtaining them costs a substantial amount of money. The sales representative or the company may contact a research firm and request a list of names based on certain specified factors. The factors would depend on the product, the industry, and the type of customers. These companies can provide very good information if the salesperson or company is willing to pay for their services.

The sources listed above are the most commonly used, but a salesperson must always look for other possible sources of information. A sales representative must be aware of his or her environment so that he or she can attempt to make a sale to any new prospects. He or she must constantly be on the lookout for new possibilities.

Information about the Customer

While prospecting, a salesperson must find out several things about the customer to prepare for the sales presentation. The sales representative must determine who the decision maker is and identify his or her personality type, substantiate his or her financial capability, determine whether a need for the product exists, calculate the potential volume and longevity of the business relationship, and ensure that the prospect is accessible, both physically and mentally.

Identifying the decision maker and his or her personality type is very important. The salesperson should not waste time trying to make a sale to an employee who does not have the power to make buying decisions. Determining the buyer's type is important because the sales presentation must be structured to suit the personality style of the customer. The information about the decision maker and his or her personality can be determined during the prospecting process by asking the right questions and listening carefully to the responses.

The salesperson needs to determine that the prospect is financially able to purchase the product before preparing and giving the sales presentation. If the customer cannot make a purchase, then the salesperson should not waste the customer's and his or her own time making a presentation. Asking questions during prospecting may elicit this information, but the salesperson must be careful not to ask questions that should be off limits to an outsider or that would offend the prospect. A good question to ask would be "Are you financially prepared to make a purchase of this size at this time?"

During the process of identifying the prospect as a potential customer, the salesperson should try to determine if he or she truly needs the product and if that need can be met with the purchase. A sales presentation should not be made if the prospect does not need the product, because either a onetime purchase will be made (if the customer feels pressured to commit to a purchase) or no sale will be made at all. The prospect should be asked probing questions to get him or her to talk about needs to determine if the product fits them.

The potential volume of sales and longevity of the business relationship between the company and the prospective customer can be a determining factor in whether or not to pursue the sales presentation. The amount that the customer may purchase and the length of time that he or she will do business with the company will affect the salesperson's decision about trying to make a sale. Small-volume purchases may not be worth the salesperson's time or the shipping costs unless the business relationship will grow and become a long-term one. Onetime purchases, unless they are very large, also may not be worth the time and effort the salesperson and company would have to invest. The ideal customer is one who will make either large or long-term purchases, or both.

Finally, a salesperson should determine the accessibility of the customer. Accessibility means that the salesperson can get to the customer to make the sales presentation. It refers to both physical and mental availability. Physical accessibility is being able to make personal contact with the customer to perform the sales presentation. The salesperson must learn whether the customer is available for a personal (or at least a telephone) meeting. If the prospect is routinely unavailable, then he or she may not be a good prospective customer. Before giving the sales presentation, the salesperson should make sure that the customer is mentally accessible. He or she should not be too busy, distracted, upset, or emotional to listen to the presentation carefully and then make a reasonable decision.

Customer Perceptions of the Salesperson

The customer's impressions of the salesperson, formed before, during, and after the sales presentation, may have a significant impact on the buying decision. These perceptions may be either positive or negative. Although the salesperson cannot control the customer's perceptions, he or she can try to influence them.

The first and most obvious factor that may influence the customer is the salesperson's appearance. The salesperson should be dressed professionally and appropriately for the market. The usual guideline for dressing is to dress just a bit better than the customer. Dressing appropriately shows the sales representative's concern for his or her appearance, respect for the customer, and respect for the company he or she represents. Clothing and jewelry should be clean, neat, and not too flashy to be professional.

The salesperson's attitude may also affect the customer's perception of him or her. The salesperson must be aware of the image and attitude that he or she projects through manner of speaking, language used, and tone of voice. Salespeople want to be seen as friendly, honest, knowledgeable, and sincere. The way they act may project other images, however. For example, if a salesperson brags or interrupts the customer, the impression the customer receives may be of an arrogant or conceited individual.

The salesperson must be aware of the nonverbal signals (discussed in Unit 2, Lesson 1) that he or she may be unintentionally sending the customer. The salesperson may send the wrong signal through facial expressions, gestures, and body positions. A frown at the wrong time could give the customer the impression that a salesperson is not pleased. The salesperson must CONSTANTLY be aware of his or her nonverbal communication.

The customer must receive the impression that the salesperson is knowledgeable about the product, the market, and the company. Including the product, company, and industry knowledge discussed in the last lesson in the presentation may help form this perception. It builds the customer's confidence in the sales representative's level of knowledge.

The most important quality a salesperson must convey to the customer is trustworthiness and credibility. The customer must believe that the salesperson and the company are honest, ethical, and reliable. The salesperson must never lie, make a promise that he or she knows cannot be kept, or deceive the customer in any way, at any time. If a sales representative misinforms the customer by mistake, he or she should immediately acknowledge the mistake and explain it. Such honesty will build customer confidence and trust in both the salesperson and the company.

Sometimes the customer may be influenced by factors that are beyond the control of the salesperson. He or she may have had past experiences with the sales representative's company, product, or another salesperson from that company that could affect the customer's perceptions. A bad past experience will generally make the customer reluctant to do business. The customer may also have a bias against the sales representative based on his or her age, gender, or race. The salesperson must be aware of these obstacles and be patient and persistent in the hope that he or she can overcome the obstacle and eventually make the sale.

Sales Environment

In sales, the term *approach* refers to the way the salesperson solicits a purchase from the customer in a presentation. The environment in which a sales presentation will be conducted determines the approach used by the salesperson and has an impact on the success of the presentation. As indicated in Unit 3, Lesson 1, the environments encountered in sales are retail, wholesale, processing/industrial, and direct sales. These environments require the same general ideas or tactics, but the focus for each presentation is customized to the environment's specific needs.

Retail prospects may be either existing customers to whom the salesperson wants to introduce a new product or new retailers with whom the salesperson wants to do business. The approach to retailers should emphasize one of the most important areas of interest for them--market information about the future demand for the product. Retailers require information about demand because they are not going to buy something they cannot sell. The salesperson should take into account the type of customers that a specific retailer will be dealing with to determine the need for the product. The financial capability of the retailer is another important consideration in the approach, because generally a retailer will make a fairly large purchase to stock store shelves. Finally, the salesperson must approach the retailer with ideas for promotions or advertisements and make sure that the retailer is willing to participate in them.

The approach in the wholesale environment is similar to that in retail. The wholesaler must provide information about the number of retailers in his or her area who want to carry the product, because they will make up most of the demand. The financial capability of the wholesaler must be determined because the wholesaler will buy a very large quantity of the product and must be able to afford a purchase. The salesperson should inform the wholesaler of any volume discounts, because they may be of aid in making the purchase. Information about delivery and order procedures and policies should also be provided to the wholesaler.

Sales in the processing sector will be approached differently than in either the retail or the wholesale environment. Businesses in this sales environment will be more interested in product efficiency and technical support because they are buying such things as equipment and raw materials. The salesperson should focus on this information in the approach. In addition, the salesperson should find out whether the processor needs this type of product and is financially able to purchase it.

The approach in direct sales should focus on the benefits the customer will receive by purchasing and using the product. The salesperson must identify the needs of the customer and the features of the product that can meet them and so benefit the customer. The salesperson must also inform the customer about the support that he or she will receive from the company in response to questions or problems.

The Salesperson's Appearance

This subject was mentioned earlier in this lesson but will now be discussed in more detail. The first thing that a prospective customer will notice during a personal meeting is the salesperson's appearance. It may have a negative or a positive effect on the sales presentation.

The salesperson should wear professional dress, but what professional dress is depends on the salesperson's market and customers. A sales representative should dress in the same style but a bit better than the customer. For example, many agricultural sales involve visiting a producer. Most of them wear very casual clothing, like blue jeans that are usually fairly worn and sometimes dirty. The salesperson should wear a casual shirt with clean dress jeans or very casual slacks. Being underdressed or overdressed gives customers the impression that the salesperson either is not prepared to sell to them in their environment or does not have enough knowledge of their environment to know what is appropriate.

Clothing and jewelry should not be gaudy or flashy because the salesperson does not want them to distract the customer from the presentation. Trendy clothing and jewelry fit into this category. For example, a female salesperson wearing very large, dangling earrings could distract the customer. The earrings would be obtrusive; they might even make noise when the salesperson moved her head.

Even if it is not especially trendy, jewelry may still be distracting if the salesperson plays with it when speaking. This may draw the attention of the customer away from what is being said. Salespeople should be careful not to toy with jewelry during a presentation.

Another consideration is the general appearance of the salesperson. The sales representative should be clean, with well-kept hair and nails. The salesperson should keep his or her hair cut and neatly styled. Fingernails should be trimmed and well cared for. Women should wear moderate makeup.

Greeting the Customer

The sales representative should follow some general steps for greeting a customer and conducting the first meeting. Since the meeting is often the first physical contact the customer has with the salesperson, he or she must be comfortable with these steps to make a good first impression.

When greeting a customer, the first thing the salesperson should do is shake hands. Many people read a lot into a handshake, so the salesperson needs to practice shaking hands so a meeting can get off to a good start. The salesperson wants to initiate the handshake with the potential customer, if possible. A good handshake is firm, of medium length, and dry. It should not be bone-crushing or limp; it should not be too long or short. The customer should be addressed by name, but the sales representative should use his or her first name only after getting permission to do so. If the salesperson is unsure of the correct pronunciation of the customer's name, he or she should ask how to pronounce it as an expression of respect for the customer.

Next, the salesperson should introduce him- or herself and the company. He or she should do so very slowly so that the customer will be more likely to remember the names. They should be repeated during the presentation. The salesperson will also want to supply each customer with a business card. A sales representative should always express his or her appreciation to the customer for taking the time to meet. This courtesy may make the customer more receptive to the sales pitch.

The next step is to state the purpose of the meeting. This alerts the customer to the direction of the conversation and indicates his or her role in it. Being informed allows the customer to more easily follow the presentation. A salesperson might say something like "Mr. Baker, today I'm going to tell you about a new type of seed corn that will be available next year."

After stating the purpose of the meeting, the salesperson wants to gain information from the customer, which is accomplished by asking probing questions about such things as the products he or she is currently using. The salesperson will also verify that any information he or she already has is correct. Doing so shows that the salesperson has researched this customer and his or her business. The salesperson does not want the entire presentation to consist of questions for the customer, however. He or she will want to introduce some investigative comments that will hopefully draw out more information without direct questioning.

After the body of the presentation, the salesperson should ask the customer if he or she has any more questions or comments. If not, the meeting should be ended to avoid wasting any of the customer's time. The sales representative should thank the customer for his or her time and attention. He or she should also let the customer know how to contact him or her with any questions or problems and shake hands again before leaving, if possible.

Summary

Learning to identify and approach a prospective customer is an important part of the sales process. Identifying a customer must be done carefully to make sure that valid prospects are found and the salesperson does not waste his or her time. The approach to a prospective customer is also important because it can set the climate for the future business relationship. It gives the customer his or her first impression of the salesperson. The salesperson should practice the approach so that the process is as smooth and businesslike as possible.

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Lesson 1:
Building Rapport with Customers

A salesperson must attempt to build and maintain rapport with his or her customers to have successful sales relationships. Several factors that affect the development of rapport will be discussed in this lesson.

The Importance of Developing Customer Relationships

Developing a relationship with the customer is important to the success of a sales presentation. A customer is more likely to do long-term business with a company if he or she feels that a stable relationship exists between them. If the salesperson establishes a good relationship with the customer, the salesperson, the company, and the customer will all profit from it. Their relationship becomes a win-win situation. In a win-win relationship, if all the parties involved do their part, they all benefit. However, if one participant does not cooperate, everyone loses.

One benefit of establishing a relationship with a customer is customer loyalty. A competitor will find it extremely difficult to interest customers in its product if they have a well-established relationship with another sales representative and his or her company. If the integrity of the salesperson and the product have satisfied the customer, he or she is less likely to be interested in doing business with another company. The customer feels an obligation to be loyal if a salesperson has treated him or her fairly and honestly.

Another benefit of a good customer relationship is that obtaining referrals and testimonials may become easier, which may make prospecting for new customers easier as well. A customer who has a good relationship with a salesperson will be more willing to give him or her the names of friends and acquaintances who may be good prospects. One motivation for sharing their names is that the customer wants to share his or her good experience with others. The customer may also want to do the salesperson the "favor" of providing referrals in return for services rendered. A good relationship may also pay off in prospecting because current customers can provide well-substantiated customer testimonials. A longtime customer has worked with the salesperson and company long enough that he or she can give the prospect a positive view of both them and their product.

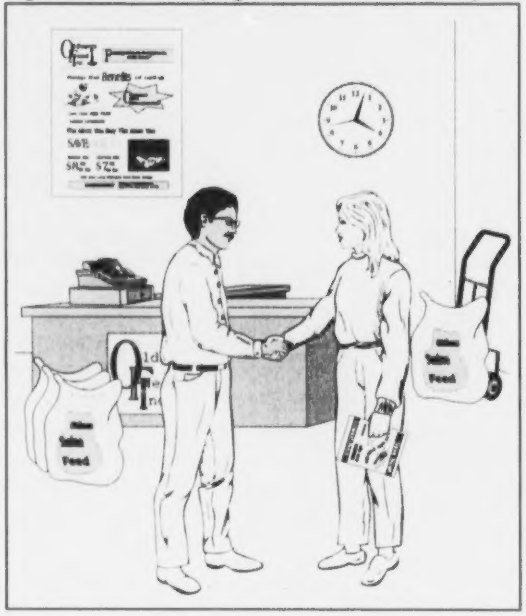
A third benefit of a good relationship is the potential for long-term purchases. Once a relationship has been established, the customer generally finds it difficult to stop doing business. If the customer and the salesperson have invested time in building a relationship, they have both made a commitment to a long-term buyer-seller relationship. No good business person is going to waste time building a relationship for a one time purchase.

Developing Rapport with a Customer

The salesperson must consider different factors when developing rapport with a customer. Rapport is established when both parties share feelings of honesty, trust, comfort, and support, as well as a common goal. To develop a sound business relationship, these factors should be considered from the first meeting with a customer. All of them require work. Once established, rapport must be maintained throughout the business relationship.

Honesty, trust, and comfort are closely related. The salesperson and the customer must be honest with each other to build trust. The salesperson should never deceive a customer, either by lying or by failing to reveal information that may reflect negatively on the product, company, or sales

Figure 1.1 - Developing Customer Relationships



representative him- or herself. Being honest allows the salesperson to let the customer know about any negative information and, therefore, explain it in the most positive light possible.

Developing trust involves more than just being honest. The customer must feel that he or she can depend on the product, company, and salesperson to do long-term business, and the salesperson must feel the same way about the customer. To establish trust, the salesperson must be professional and businesslike. He or she should be friendly and polite, which shows eagerness to work with and respect for the customer. The sales representative should let the customer know that he or she is available to provide help at any time, and at the same time confirm his or her competence and knowledge about the product. The salesperson should inform the customer about what steps he or she plans to take to discover and meet that customer's specific needs.

Once the salesperson and customer have established trust, both parties will develop a certain comfort level in the relationship. Being comfortable in a sales situation means that both the customer and salesperson feel that discussing almost anything about the product and company is acceptable.

Support from the salesperson and the company aids in establishing rapport. The salesperson should be available to answer any questions or give advice to the customer. The sales representative is the link between the customer and the company for any technical support that may be necessary. He or she may also find it necessary to provide support by advising the customer on specific business matters, such as financial planning. However, such advice should only be given at the customer's request.

The final factor in developing rapport is finding a common goal. When making a sales call, the salesperson should announce the purpose of the meeting immediately and confirm that the customer agrees with the purpose. Both the salesperson and the customer should then develop expectations for both parties for the long-term business relationship. This process develops rapport early in the relationship because each party knows that the other has long-term plans. Their commitment to a mutual long-term goal helps ensure that they will continue to work together.

The Importance of Establishing Credibility

Establishing the credibility of the salesperson and company is an essential part of the sales process. A customer must be able to believe in the salesperson to build a long-term business relationship. The salesperson can prove his or her credibility by being honest, supplying complete information, and backing up any promises that have been made. The customer must feel that the salesperson is a good source of information and can be counted on to take care of any concerns or problems that may arise during the business relationship. The customer will not likely make purchases for very long, if at all, from a salesperson who is not credible.

The Importance of Identifying Reasons for Doing Business

To establish a good relationship with customers, the salesperson must inform them of his or her reasons for doing business and the mission of the business relationship. Identifying reasons for doing business is necessary to ensure that the customer and salesperson have the same expectations. At the beginning of their association, the salesperson should explain in detail the purpose of the sales presentation, what he or she will provide, and what will be expected from the customer. The customer then has the necessary information to decide whether to proceed with the business relationship. The salesperson may learn that the customer does not want to do business and can avoid wasting any more time. If the salesperson is rejected, he or she might try a different approach with that customer later, or use the rejection to improve his or her approach with other prospective customers. If the customer wants to do business but is not comfortable with some part of the purpose, clearly stating the purpose gives the customer an opportunity to bring up any areas of concern or changes that he or she may want to make. This process can stimulate a conversation in which the salesperson can gain a substantial amount of pertinent information about the customer and his or her business priorities.

Summary

One of the salesperson's priorities when dealing with customers is developing and maintaining rapport. If a customer and salesperson do not have good rapport, neither one of them may feel comfortable with the possibility of a long-term relationship. Building rapport involves cultivating honesty, trust, comfort, support, and finding a common goal. Establishing credibility and identifying reasons for doing business are also important parts of forming a good relationship with a customer.

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Lesson 2:
Identifying Customer Needs

Identifying customer needs is crucial to making sales. The process of discovering needs is many times a long one, entailing several steps. One must become familiar with the process to be successful in a sales career.

Importance of Identifying Customer Needs

Identifying customer needs is important for two reasons. First, since needs motivate the customer's buying decision, the salesperson must know what the customer's true needs are to be able to make a sale successfully. If a need does not exist or if the purchase of the salesperson's product cannot satisfy it, then a business relationship is unnecessary. Identifying the customer's needs is also important because the salesperson will discover valuable information about the customer and his or her personality and business at the same time.

The first step in the process is discovering a need. The salesperson must ask probing questions and listen carefully to the responses to learn what the customer's true needs are and if the salesperson's product can meet them. Asking questions also gives the salesperson valuable insights about the customer and his or her concerns. Another way a sales representative can uncover needs is by observing and researching the customer's business; often, a salesperson comes up with a better idea of a need or problem area when not distracted by the bias of the customer.

Once the salesperson has established a list of possible needs, the second step is making the customer aware of them. The salesperson should question the customer to see if he or she agrees about the nature of the needs. Although the salesperson was able to identify the needs, customers may not recognize their needs themselves. A customer may have focused on other areas of the business, may not have researched his or her own needs thoroughly, or may not think that a reasonable solution to a need exists. The salesperson's job is to help the customer recognize his or her true needs by informing the customer about the research conducted by the salesperson or by revealing ways to meet seemingly unfulfillable needs.

After the salesperson has identified needs by completing these two steps, he or she should satisfy those needs, preferably through the sale of a product. The salesperson must go through the process of identifying needs to make a sale. He or she cannot accurately discuss customer benefits without understanding the customer's needs. The salesperson must connect product features with specific benefits to the customer and the business during the presentation, or the customer may not be convinced that a need exists or that a product can meet it.

Types of Sales Personalities

A salesperson must be aware of the different personality types that exist. These personality types can affect the salesperson's approach to the customer. These three types of sales personalities are extrovert, introvert, and ambivert.

An extrovert tends to be very outgoing, friendly, and talkative. Extroverts are more people-oriented and less opinionated. They like to talk and get to know the salesperson immediately. Extroverts are an easier initial sale than other types because they tend to be more open-minded. An extrovert should be approached in a friendly and open manner so the salesperson can build a personal relationship with the customer. These customers enjoy praise for their accomplishments and an abundance of assistance and technical support from the salesperson to enhance their egos.

Introverts are more subdued and private and less emotional than extroverts. They are task-oriented rather than people-oriented and are extremely analytical when making a decision. This personality type likes to have extensive information on which to base a decision. In comparison to extroverts, introverts are more openly opinionated and predictable. Introverts are harder to sell to initially but are generally very loyal after making a decision. The best approach for dealing with an introvert is to have a detailed, specific, and fact-filled presentation. Introverts should not be rushed; they like to digest all the facts before making a decision.

The ambivert is a combination of introvert and extrovert traits; most people fall into this category. In an ambivert, the salesperson will recognize behavior that is typical of both an introvert and extrovert. The salesperson must observe the customer's behavior to learn which elements of each personality type the ambivert expresses and mold the sales presentation to fit these characteristics.

Salespeople should look for the different qualities associated with these sales personalities during each contact with the customer. They must take the time to figure out which of the personality types each customer is. This information can make the difference between a successful and an unsuccessful presentation.

Open-Ended and Close-Ended Questions

When using questions to discover needs, the salesperson may ask both open- and close-ended questions. Open-ended questions, like "What can you tell me about your business?", require a more extensive answer than just yes or no. They should be thought-provoking. These questions can help the salesperson to understand the customer and his or her point of view. They are generally nonthreatening and allow the customer some control over the conversation, which generates feelings of friendliness and trust for the salesperson.

Close-ended questions are questions that generally provide information through very short answers. "Do you own finishing hogs?" is an example of a close-ended question. They are useful if the salesperson needs to learn specific information about the customer. With this type of question, the salesperson has almost total control of the conversation. The salesperson must be careful not to overuse these questions, or the customer may feel as though he or she is being interrogated and become defensive.

Questions to Determine Needs

Questions that serve several different purposes can be used when determining the customer's needs. The types that will be discussed in this lesson are questions to focus attention, questions to gain information, questions to confirm information, questions to give information, questions to qualify customers, thought-provoking questions, defining questions, and closing questions.

Questions to focus attention are often used at the beginning of a sales meeting to focus the conversation on the subject of the meeting. They can also be used in the middle of a presentation if the conversation has strayed from the subject. The salesperson uses these questions to gain control of the presentation. They are usually close-ended questions. For example, a feed salesperson might ask a customer, "Have you seen the results of the trials on our new higher protein hog finishing feed?" This question has a simple answer, but it draws the customer's attention back to the subject the salesperson wants to discuss.

Questions to gain information may be used at any time by the salesperson to identify needs and obtain information about the customer's business. These questions can be close- or open-ended but tend to be close-ended. A salesperson at an implement dealership might inquire of a customer, "Have you ever used our company's no-till drill for planting soybeans?" This question has a yes or no answer, but it gives the salesperson some insight into the experience the customer has had with the company.

Questions can also be used to confirm information the salesperson has already gathered about the customer, allowing the salesperson to find out if his or her research and assumptions are correct. If the information is not correct, the salesperson can gather clues about how to improve his or her methods of obtaining information. These questions also let the customer know that the salesperson has enough interest in his or her business to have done research; they may indicate that the salesperson has been paying attention to the customer's comments as well. For instance, a chemical sales representative might say to a lawn and garden retailer, "I have read that there is a new nursery business in town that may make large purchases of your products. Do you think you will get the bid on their business?" This question lets the retailer know that the salesperson has checked possible business opportunities and is willing to work with him or her to get this business.

Other questions can give the customer information about the salesperson, his or her company, and the product. They can be useful because they not only inform the customer but also draw him or her into the conversation. These questions ask the customer whether he or she knows something about the product or company. A seed salesperson might ask a farmer, "Have you heard about our new line of nematode-resistant, higher-yielding soybean seed, CS123?" This question lets the customer know that this new line of seed exists and suggests some of its important features.

Qualifying questions help the salesperson decide if a prospect is potentially a good customer. These questions provide the salesperson with information about the customer's buying ability and interest in the product. For example, a chemical company representative might ask a row crop farmer, "Do you control your weed problems by mechanical or chemical means?" Although most fields have weed problems, not all are bad enough to use expensive chemicals; the farmer also may not wish to use chemicals. This question lets the salesperson know whether this farmer would be interested in purchasing the company's new weed control program.

Thought-provoking questions are very useful for getting the customer involved in the presentation and thinking about the information and the product presented. These questions are usually open-ended, so the customer must give more in-depth responses, which cause him or her to think about the product in greater detail. Verbalizing his or her thoughts about the purchase of the product may help the customer see the benefits of doing business. A salesperson might ask the question, "What do you think the pros and cons of purchasing the product are?" After asking this question, the salesperson should sit back and listen to the customer, avoiding interruptions that could disturb the customer's train of thought.

Defining questions are used to confirm a statement the customer has made. They are important if the salesperson is not sure what the customer meant. Usually these questions restate the customer's comment in different words. After restating the comment, the sales representative should obtain confirmation from the customer that his or her understanding is correct.

The salesperson uses closing questions in an attempt to close the sale or get a decision from the customer. The salesperson can directly or indirectly ask the customer to make a purchase. For example, at the end of a sales presentation, the salesperson might ask, "How many units of the product would you like to order for the first shipment?" This question is direct; it assumes that the customer is definitely going to buy the product and only the size of the purchase has yet to be settled.

The salesperson can use any of these types of questions during the sales process. However, some questions are more appropriate at certain times. Practice and experience will help the sales representative learn when and where to use certain types of questions.

Reflective Questioning

Reflective questions are defining questions used when a salesperson rewords something a customer has just said to confirm that he or she has understood the customer. They provide a check of the salesperson's listening skills. Although the salesperson may be listening to the customer, he or she may not be listening carefully enough to understand the message correctly. After the customer makes a statement, the sales representative should rephrase it in his or her own words and get confirmation from the customer that he or she is correct. If correct, the salesperson knows that he or she has done well in listening to the customer; the customer will realize it as well and understand that the salesperson is interested and is paying attention. If the salesperson has difficulty recognizing the customer's meaning, however, then he or she knows that practice in listening is required. The ability to listen carefully is one of the most important skills a salesperson can have. A salesperson must be able to listen and understand what a customer is saying to determine needs and make a sale.

Using Summarizing Techniques

After the salesperson has used questions to discover the needs of the customer, he or she should put together a list of needs. The salesperson should get confirmation from the customer that they agree on the validity of the needs by summarizing the list for the customer. If the list is short, the salesperson should discuss the specific features of the product at the end of the summary and ask the customer for agreement. If the list of needs is long, the salesperson should match the needs and product features one at a time while going through the list and then ask the customer if he or she agrees. In either case, if the customer agrees with the list of needs and the benefits of corresponding product features, the salesperson can attempt to close the sale. In most situations, the customer should not object to the purchase because he or she has already signaled agreement. Done correctly, a summary of needs can lead to a smooth and easy close to the sale.

Summary

Identifying customer needs is essential to making a sale, since the sales presentation must be molded around each customer's specific needs. The customer's personality affects the methods used to gain information about needs. Different types of questions can be used to learn this information. Open-ended and close-ended questions are used to obtain specific types of answers, and the salesperson must understand when it is best to use each type. Questions can also be formulated to learn different kinds of information. The salesperson must understand the importance of listening carefully and using reflective questioning to check his or her listening skills. A salesperson who does not have good listening skills will have a difficult time learning the customer's needs. Once needs have been determined, the salesperson must confirm them with the customer.

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Lesson 3:
Effective Sales Presentations

The sales presentation is the tool used by salespeople to convey information about a product or service to convince a customer to buy it. It is an essential component of the sales process because the sales presentation gives the salesperson the opportunity to convince the customer that he or she has correctly identified the customer's needs and the product features that meet those needs. While each salesperson has his or her own technique based on personal preference and the personality of the customer with whom he or she is dealing, this lesson covers the components and organization of a standard presentation.

When to Make a Sales Presentation

After a rapport has been established between the salesperson and customer and the salesperson has discovered and confirmed the customer's needs, the sales representative should prepare to begin the presentation. During the earlier steps, the salesperson receives feedback from the customer. This feedback will indicate if the customer is receptive to the salesperson and his or her product. If the feedback has generally been positive, then the salesperson may begin the sales presentation.

Key Components of an Effective Presentation

The key components of a sales presentation are the pre-presentation planning, opening, body, summary, and close. Each of these components is an integral part of the presentation.

Pre-presentation planning - Pre-presentation planning is very important for a successful sales presentation, because it prepares the salesperson to present the product to a specific customer or prospect. Before the actual presentation begins, the salesperson must spend time planning how he or she will tailor the presentation to attract that customer. The sales representative begins by developing a way to open the presentation that will attract the attention of the customer. The salesperson should then identify the features of the product or service that the customer might appreciate and the benefits of those features for the customer. The next step is to organize a list of possible objections to the product that the customer may express, as well as the most appropriate responses to each objection. Finally, practicing the sales presentation in front of others before giving it to the customer will help the salesperson to be more comfortable with it. He or she can use the practice to identify areas that do not flow smoothly or are confusing. It will also help the salesperson to remember how the material is to be presented, which will make the presentation professional. The result of good pre-presentation planning is that the salesperson is better prepared and more confident about the upcoming sales presentation. The more knowledgeable and prepared the salesperson is, the more likely it is that the sale will be successful.

Opening - The opening is an important part of the sales presentation because it sets the stage for the entire presentation. One way in which the opening prepares the customer for the rest of the presentation is by attracting the customer's attention. Gaining the customer's attention is integral to a successful sales presentation. If the customer is not mentally engaged from the beginning, he or she may not pick up on all of the important points of the sales pitch. Attracting the customer's attention is usually done by appealing to a combination of the customer's senses (sight, sound, smell, touch, or taste). For instance, a presentation might begin with a demonstration that would have the customer touch or look at a product while the sales representative talks about it. Once the salesperson has secured the customer's attention, he or she must strive to hold it throughout the rest of the presentation.

Besides attracting attention, the opening also prepares the customer for the content of the presentation. The opening should outline the presentation that will follow. An outline gives the customer an idea of the information that will be presented so that he or she can mentally prepare for it and thus find it easier to absorb the key points.

Three approaches can be used to first address the customer and gain his or her attention. They are the methods approach, merchandise approach, and service approach. In the methods approach, the focus of the approach is the greeting. The salesperson should greet the customer pleasantly and use his or her name if possible. The sales representative should be direct and straightforward and take control of the conversation. In the merchandise approach, the salesperson's first comments should be about the product, pointing out its main features and advantages. The salesperson using the service approach should begin by asking if he or she can be of service, while avoiding using yes or no questions.

Body - The body of the presentation is the main part of the sales presentation. In the body, the salesperson describes the key features of the product and the benefits the customer will receive with its use. The sales representative should discuss the features and benefits in a logical order, addressing each thoroughly before moving on to the next one. He or she may want to use visual aids to illustrate the product's benefits.

As the salesperson goes through the body of the presentation, he or she should be alert for feedback from the customer. Feedback is important not just in the body but throughout the presentation. When properly monitored and employed by the salesperson, feedback can be used to help the salesperson and customer understand each other. The salesperson should be alert for both positive and negative feedback from the customer to determine what impression he or she has of the product. An example of positive feedback is a favorable remark about the product, while negative feedback could consist of a negative comment or a refusal to buy it. Feedback may also take the form of objections that the customer has about the product or company, which will be covered in greater detail in Lesson 4. In responding to the customer, the salesperson should always give him or her positive feedback.

Summary - When the salesperson has explained the features and benefits and addressed any feedback received from the customer, he or she should provide a summary of the key points of the presentation. The summary allows the salesperson to make sure the selling points of the product are fresh in the customer's mind before attempting to make the sale. The salesperson should then obtain feedback from the customer to ensure that he or she remembers and understands the important points.

Close - The close is the actual confirmation of the sale. Several different methods of closing a sale can be employed. Each salesperson will use different techniques depending on his or her personal preferences and the personality of a particular customer. The various techniques that can be used to close a sale are discussed at length in the next lesson.

Resources for Presentations

A salesperson can use several different resources in the process of constructing a successful presentation. Some of the more common resources used by sales representatives include a customer/prospect profile, product and company data, a list of standard objections and related answers, a list of product features and possible customer benefits, a list of possible approaches or strategies based on personality type, a list of closes, a list of potential attention getters, and visual aids and demonstration materials. These resources can be prepared ahead of time and used as needed.

Customer/prospect profile - After an earlier visit or telephone call, the salesperson (or another salesperson previously in that territory) may have done a customer/prospect profile. The profile can contain vital information about the customer or prospect and his or her company, including identification of decision makers, personality type, financial power, and problem areas. This material can be helpful in the process of personalizing the presentation for a particular customer.

Product and company data - The salesperson should know product and company data well so that he or she can reply to customers if they ask questions. Being able to produce this information readily suggests that the salesperson is confident and knowledgeable about both the product and the company--key points that a customer uses to evaluate a salesperson.

List of standard objections and responses - Salespeople find it very beneficial to list anticipated objections and responses to them before attempting to make a sale. This list helps prepare the salesperson for customer objections before they arise. If prepared, the salesperson is more confident in his or her responses and is less likely to respond poorly. After a sales representative begins selling a product, customers may raise objections that he or she has not considered. If this occurs, the salesperson may want to add these objections to his or her list so that responses to them can be prepared.

List of product features and related benefits - Writing down a list of product features and related benefits can be both timesaving and thought provoking. Each individual feature should be listed in one column, and all the possible benefits of each feature should be listed in another column. When the presentation is put together, the sales representative can pick the features and benefits that will be most appealing to a customer. Since features and benefits are considered beforehand, preparation time for the actual presentation is reduced. Another benefit is that the salesperson has time to examine the product calmly and pinpoint its best points.

List of approaches or sales strategies - A list of possible approaches or sales strategies based on personality type can be valuable information for a salesperson. The relationship between personality type and approach is not absolute, but this list can help the salesperson choose a strategy that will likely be effective with a certain personality.

List of closes - A list of different closes and how they are implemented can help the salesperson to memorize the techniques for confirming a sale. The sales representative can then readily incorporate the close that he or she feels will work best and implement it easily and accurately.

List of attention getters - Sales representatives should identify several different types of attention getters to attract and hold the interest of the customer during the presentation. They need to be thought through before the presentation to make sure that they will not only gain attention but will attract the right type of attention. Attention getters, which include stories, anecdotes, and special offers, need to be unique and interesting and reflect positively on the product or service. They are usually used in the opening but can be employed later in longer presentations.

Visual aids and demonstration materials - Visual aids and demonstration materials, such as charts, graphs, models, and displays, need to be created before the presentation takes place. The salesperson should make sure that they stress the positive points of the product. These materials represent the salesperson and the company, so they must be well developed and professional-looking, not sloppy or disorganized. The material should be easy to understand and avoid giving unnecessary information. Remember, visual aids are used to stress important points about the product; if they are disorganized or complicated, the material will not be beneficial to customer comprehension or the sales process.

Summary

The decision to buy a product is made during the sales presentation. The salesperson must prepare the best possible presentation to convince the customer to purchase the product. While the presentation will be different for each customer depending on his or her personality type, it requires adequate pre-presentation planning and should include an opening, body, summary, and close. Having good resources is also an important part of putting together a well-developed presentation.

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Lesson 4:
Techniques for Closing a Sale

As the presentation ends, the salesperson's goal is to get the customer to commit to making a purchase. To do so, he or she may have to overcome opposition in the form of objections. The salesperson then has to employ one of several techniques to close the sale, confirming that a sale has been made.

Handling Opposition

The salesperson should learn to handle opposition as effectively as possible, since almost every customer will express some type of opposition. During a sales presentation, the customer will likely give feedback in the form of objections that he or she has about the product or company. Despite their negative content such objections should be viewed positively, because they can benefit the salesperson and the presentation if they are handled appropriately. They indicate that the customer has an interest in the product or service and allow the salesperson insight into the customer's thought processes. This insight can be helpful to the salesperson because it allows him or her to determine whether the customer comprehends the important points of the presentation. A salesperson's openness to customer objections also helps customer relations. A customer appreciates being able to raise questions and concerns without feeling put down or dismissed by the sales representative. In addition, the salesperson conveys to the customer that he or she is confident enough about the product to fully explain both its advantages and its drawbacks. Objections should therefore be welcomed, even encouraged, by the salesperson throughout the presentation.

Objections should generally be handled immediately. This approach benefits the salesperson, since the customer is then more knowledgeable about the product. However, if a sales representative is not going to handle the objection at once, then he or she must acknowledge the objection and explain why it will be discussed later. For example, the customer may have jumped ahead in the presentation and asked a question concerning a feature that will be discussed in a few minutes. In that case, the salesperson should restate the objection to the customer to confirm that he or she understood it correctly and tell the customer that it will be discussed later. The salesperson should verify that the customer does not have a problem with the delay before continuing with the presentation.

Negotiation skills are essential to handling objections. The salesperson must negotiate between the customer's beliefs and the facts that the salesperson is using to overcome the objection. The method that should be used to handle resistance depends on the type of objection raised. Two types of objections are valid and hidden objections.

Valid objections are statements made by the customer that are true or at least true based on the customer's knowledge. The comment, "Your product is more expensive than the competition," is an example of a valid objection. These objections are a good indication that the customer has a desire to buy. The sales representative should immediately address valid objections; he or she should *never* ignore them or wait until later to respond to them. The salesperson should restate the objection and confirm with the customer that he or she has understood the point. The next step is to discuss the objection and attempt to downplay its importance by stressing other, more positive features of the product and all the benefits that the customer will gain from purchasing it. After attempting to decrease the significance of the objection, the salesperson should ask the customer if the positive features and benefits outweigh the objection in importance. After dealing with the objection, the salesperson should review the benefits of the product that will help to sell it.

Hidden objections, or smokescreens, are objections made by the customer to disguise true objections. The customer may use a smokescreen because he or she is embarrassed to reveal the real objection, may not recognize it, or may not want to deal with it. For example, the customer might say that he or she does not need the product, when in reality a need exists, but the money to make a purchase is not available. Hidden objections are clues to the salesperson that the customer has other objections that must be discovered and addressed. The best method for uncovering a real objection, especially if the customer has stopped talking, is to ask the customer direct, specific questions until all possibilities but one have been eliminated. An indirect question can also be used if the salesperson feels that the customer is still willing to talk openly. Once the salesperson thinks that the true objection has been identified, he or she should restate the objection to confirm that it is correct. The sales representative can then follow the method described in the preceding paragraph for dealing with valid objections.

A related problem that a salesperson might encounter is a misunderstanding. In a misunderstanding, the customer raises an objection based on his or her misinterpretation of information or on misinformation. The salesperson should restate the misunderstanding to ensure that he or she has understood the customer and then candidly refute the misunderstanding by providing proof of the facts. If the customer agrees that the objection was based on a misunderstanding, the salesperson should reemphasize the features and benefits of the product and obtain verification from the customer that he or she understands them. The sales representative may then attempt to close the sale if the customer raises no other objections.

When to Close the Sale

Because closing can happen at any time, the salesperson should be ready to close the sale from the beginning of a meeting with a customer. Going through an entire presentation may not be necessary if the customer is ready to buy the product. If the customer is not ready to make the purchase, however, the salesperson should consider closing the sale when he or she has completed the presentation and dealt with all of the objections.

The sales representative should review the presentation before closing the sale. He or she should think about the customer's feedback. If the feedback has been extensive and positive, the salesperson can assume that he or she has done a sound job of presenting the appropriate information and can attempt to close the sale. If the feedback has been limited or negative, a possibility exists that the salesperson has not presented the product features and benefits that appeals to that specific customer. The salesperson needs to consider what he or she knows about the customer and the business and review the presentation to see if any important selling points have been omitted. If important information was not included, that material should be covered before the salesperson attempts a close.

Methods for Closing a Sale

Many different methods may be used to close a sale, but this lesson will focus on the six most common methods. They are direct, assumptive, summary, choice, conditional, and loss-in-waiting closes.

Direct close - In the direct close, the salesperson asks the customer to commit to purchasing the product. This type of close is extremely effective, especially when dealing with a person who has a very direct personality. The salesperson asks a direct question, such as "Why don't I fill out the order form?" or "What quantity would you like to buy?" A sales representative using this method should be very confident that all objections have been covered and that the customer is ready to buy. If the salesperson has not completed his or her job in selling the product, he or she risks offending the customer by forcing a decision.

Assumptive close - The salesperson using the assumptive close assumes that the customer or prospect is committed to buying the product based on the feedback received. This close provides an easy transition for both the salesperson and the customer because it flows directly from the presentation at the point that the sales representative believes that the customer is ready to commit. When the salesperson feels that the customer is ready to buy, he or she begins working out the details of a purchase (i.e., setting up the delivery, filling out paperwork, etc.). If the assumption is correct, then the sale has been made; if not, the customer will inform the salesperson about his or her mistake. The salesperson needs to discover what objections the customer still has and address those concerns. The salesperson may then use the assumptive close again or try another technique.

Summary close - The summary close is an indirect style. The salesperson summarizes the points of the presentation and emphasizes the features and benefits of the product that both parties have agreed on in a final attempt to assure the customer that it would be a good purchase. As each point is raised, the salesperson should obtain agreement from the customer. If they agree on all key points and the customer raises no other objections, the sale has generally been made. The sales representative then asks for the order, usually with a direct question. If the salesperson has done a good job of covering all the significant features and benefits and has received positive feedback on each, the customer should be ready to buy.

Choice close - In the choice close, the sales representative gives the customer a choice between one buying option and another, but not the option of not purchasing the product. "Would you like to purchase one load of the new herbicide, or two?" is an example of a choice close. Technically, the salesperson has not even acknowledged that saying "no" is an option. This method is employed when the salesperson is confident that the customer is going to buy something and just needs to decide what to purchase. The salesperson would not want to use this close unless he or she has received only positive feedback and is certain that the customer has no more objections. Although the customer can still refuse to make a purchase, a refusal is not likely if the salesperson has done a complete job of selling the product.

Conditional close - This close is generally used if the customer is expressing some hesitation about buying the product. The salesperson might then present a condition, or qualifier, for purchasing the product. For example, he or she might say "If I can ______________ (get a better price, ensure a faster delivery, etc.), will you purchase the product?" This close can be very effective, especially if the salesperson believes one detail is keeping the customer from agreeing to the purchase. However, no promises should be made that cannot be fulfilled. In other words, the sales representative should not ask for a commitment if he or she cannot deliver what is promised to the customer.

Loss-in-waiting close - The loss-in-waiting close can be employed in different ways. The sales representative may inform the customer of the positive aspects of buying now rather than later. Considerations such as future price increases may convince a customer to proceed with the purchase. The salesperson may also use this close when telling the customer that an item may be unavailable later. In either case, the salesperson must always be truthful. He or she should not mislead the customer into thinking that purchase is a "now or never" situation if it is not.

When closing a presentation, the sales representative should take the customer's personality and communication style into consideration. For example, most controllers would prefer a direct or choice close, because they give them the opportunity to make a decision. Supporters, in contrast, may prefer a more casual assumptive close. The timing of the close may also be affected by the customer's personality; an analyzer, for instance, will need more time to make a decision than a controller.

Summary

In making a sales presentation, the salesperson will likely face some form of opposition from the customer. The salesperson should be prepared to handle it in the most positive way possible and overcome any objections the customer may have. When all objections have been addressed, the salesperson should attempt to close the sale. Several different methods can be used to close the sale successfully, depending on the sales representative, the customer, and the sales situation.

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Lesson 5:
Customer Service

The salesperson's duties do not end once a sale has been made. He or she still has a responsibility to maintain a positive long-term relationship with the customer. Providing good customer service is an important part of this relationship.

Supporting the Customer's Decision to Purchase

Once the customer has decided to purchase an item, the salesperson's job is to reassure the customer that he or she has made a good decision. One of the first things that a salesperson should do is compliment him or her on the decision. The salesperson should then restate the benefits that the customer will gain from the purchase to reassure him or her about its positive aspects.

The salesperson should inform the customer of the delivery time of the product and assure the customer that he or she will personally check to make sure that all orders are delivered. After the shipment is delivered, the sales representative should immediately contact the customer to confirm that the order was correct and the customer is satisfied with it. This phone call will give the customer a feeling of security by assuring him or her that the salesperson is still interested in their business relationship. If any problems do occur in the delivery, the salesperson should deal with them honestly and as quickly as possible.

The salesperson should also be readily available to the customer to answer questions or deal with problems. The customer will then likely feel more secure about the long-term relationship between them. The customer will also feel as if he or she has made a good decision in choosing the salesperson's product and company.

Processing an Order

Certain steps must be completed when placing an order for a customer, although different companies or customers may require variations of these steps. The first step is to get the order from the customer and fill out the paperwork required to place the order. After writing down the order, the salesperson should review the order with the customer to make sure that the information about the product and amount of payment is correct. The salesperson should also check the customer's name and the shipping and billing addresses on the order for mistakes.

The second step is to discuss the method of payment for the product. If the customer is going to pay cash, then both the salesperson and the customer should agree on the time of payment--either immediately, at delivery, or within a certain time after delivery. If the customer is going to set up a credit account, the salesperson must explain the details of the credit account, such as the length, number and size of payments, penalties for delinquent accounts, etc. He or she then normally calls the company's credit department and gets approval to set up the account.

The next step is to place the order with the company so they can begin processing it. The salesperson may call in the order to the company. If possible, the salesperson should find out the delivery time when placing the order and check with the customer to make sure he or she will be available to take delivery. If this cannot be done at the time the order is made, the customer should be contacted when a time is set.

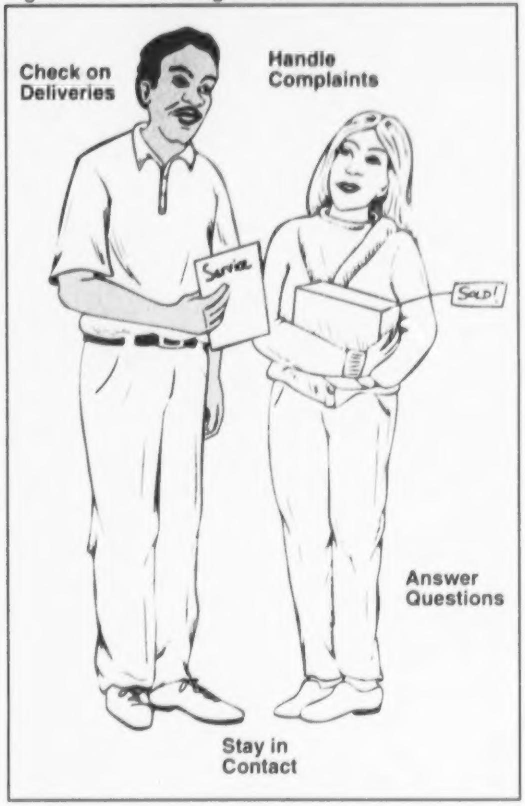
The last step is to process all the paperwork involved in placing the order. The order may need to be typed up or entered into a computer system. The customer should always receive a receipt for his or her records. Other copies may need to be sent to the salesperson's supervisor, as well as the credit, shipping, and accounting departments.

Maintaining Positive Long-Term Relationships

Maintaining the relationship between the customer and the salesperson must be an ongoing process. The salesperson has to invest a great deal of time and effort in the relationship if it is to remain a profitable alliance. The salesperson will initiate different strategies for maintaining the relationship based on his or her personal preferences, the customer's personality, and the type and size of the account. These activities are usually not directly related to the sales process but are still vitally important to continued sales.

One of the most important things that a salesperson should remember is to stay in contact with the customer. Frequent contact lets the customer know that the salesperson is still interested in his or her account. It also gives the customer an opportunity

Figure 5.1 - Providing Customer Service



to discuss any progress or problems with the salesperson.

An essential component of maintaining a good long-term customer relationship is handling complaints well. Depending on the customer, handling complaints may be a difficult job for the salesperson. When a customer voices a complaint, the salesperson must find out if the customer, product, or company is at fault. Once this has been determined, the salesperson must handle the complaint appropriately. To do so, the salesperson must obtain information about the customer, know the company's policy for handling complaints, and learn how to get any necessary information concerning the complaint. If the product and company are at fault, the customer must be compensated in some way so the business relationship will not be permanently damaged. The salesperson should follow the company's guidelines in compensating the customer and *never* promise the customer something that he or she cannot deliver. If the salesperson finds out that the problem is due to the customer's error, the company is not liable. However, if the customer thought that he or she was at fault, no complaint would have been made. The salesperson therefore needs to be very diplomatic, since he or she does not want to anger or offend the customer.

Another part of maintaining a good relationship with the customer is being reliable and honest. The customer needs to know that the salesperson will be available to help with difficulties. If the customer cannot count on the salesperson to provide assistance, he or she will likely find another company and sales representative. Besides being reliable, the salesperson should always be honest with his or her customers. Being dishonest will eventually catch up with a salesperson, and he or she will lose business. Even if the truth is uncomfortable or might cost some short-term business, long-term relationships will be stronger because customers will know that they can trust the salesperson.

Strategies for Collecting Past Due Accounts

The subject of overdue accounts is very sensitive for customers, salespeople, and the company. The salesperson may handle overdue accounts in different ways based on the reason the account has not been paid and the amount that is due. The reasons why an account is overdue may or may not be legitimate and reasonable.

The first thing that a salesperson must do is to find out why the account is overdue so that he or she can deal with the problem appropriately. The salesperson must talk to the customer about the problem. In a worst case scenario, the customer does not intend to pay or is attempting to wait as long as possible to pay. This situation does not occur often. Usually the customer is having a genuine problem with paying; he or she may be having financial difficulties but intends to pay the bill as soon as possible. The customer may also have not realized that the payment was due or may have misunderstood the terms of the credit agreement.

The sales representative should follow company policy for dealing with overdue accounts. Often, the appropriate response depends on the reason the account has not been paid. The customers who do not intend to pay or who are waiting to pay are obviously not good long-term customers, and the credit department of the company should take over the collection process. Customers with financial problems could use the assistance of the salesperson, either to help them through their financial problems or to work out some type of extended payment plan. Customers who simply do not realize that payment is due are often poor financial managers, and the salesperson should work with these customers to help them remember to pay on time. Usually, a polite but firm phone call will yield the payment. In the future, the salesperson may want to keep track of when payments are due and give the customer a phone call a few days ahead of time as a reminder. Finally, the salesperson should meet with customers who have misunderstood the terms of the credit agreement and review the terms so no future misunderstandings about the payment plan will occur. The salesperson should be patient with the customer, because the salesperson's job is to cover this material at the close of the sale and make sure that the customer understands.

Summary

The best customers are long-term, loyal customers. Maintaining a good business relationship starts with supporting the customer's purchase and processing the order. The salesperson then needs to provide reliable customer service, which includes maintaining contact with the customer, handling any complaints, and being reliable and honest when dealing with the customer. The salesperson is the liaison between the customer and the business, so problems like product complaints or overdue accounts will be handled by the salesperson first. The salesperson must do everything possible to address these problems and satisfy the customer.

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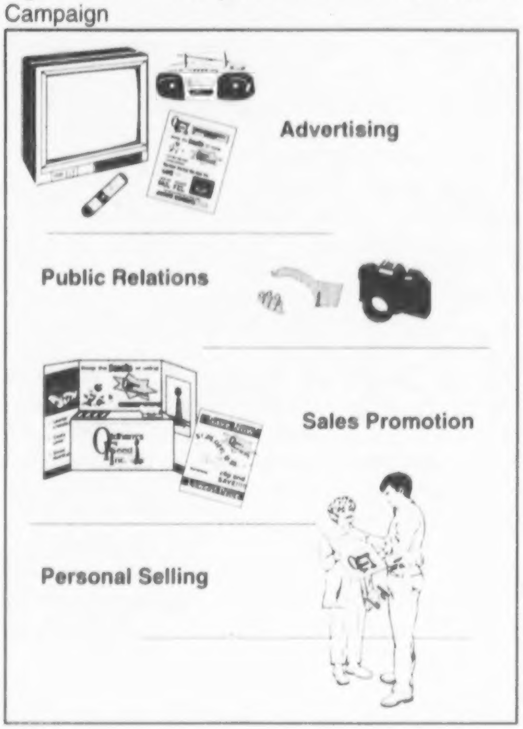
Lesson 1:
Developing a Promotional Campaign

Promotional campaigns are used to inform potential customers of products and services that are available, to create interest in the products, and to persuade potential customers to make a purchase. Knowledge of how to develop a promotional campaign is important because they can be expensive and need to be used wisely to create sales.

Components of a Promotional Campaign

Promotional campaigns are programs instituted and paid for by a business that present the merits of its product or service or of the business as a whole to increase sales. Product promotion publicizes the products of a business, while institutional promotion is designed to improve the image of the business. The components of a promotional campaign are advertising, public relations, sales promotion, and personal selling (Figure 1.1). While these components may be a part of a unified promotional campaign, they are also sometimes used separately.

Figure 1.1 - Components of a Promotional Campaign



Advertising is a promotional message that a sponsor pays to have placed in different media such as newspapers and radio. Advertising can inform potential customers about the nature of the product or service being offered, where or when they can purchase it, and how much it will cost. Advertising seeks to influence consumers' perceptions of their wants and needs. It generates business by convincing customers that the product or service satisfies one of their needs or wants. A business may use advertising to tell consumers about how a product or service saves time and money, provides greater convenience, increases knowledge, improves their health or safety, improves a skill, increases recreational time, or fulfills another necessary or desired function. Advertising can also increase sales by influencing potential customers to see their wants as needs.

In order for a business to continue to operate, sales transactions must take place. Advertising is important to continued sales because it can increase business by attracting new customers and encouraging previous customers to return. Once the customers are drawn to a business, other components of a promotional campaign can be used, such as public relations, product display, and personal selling.

The public relations component of a promotional campaign involves performing various activities designed to create a positive image to promote goodwill toward a business. Businesses develop public relations programs to help consumers recognize what a business contributes to the community. Public relations programs can help a business and its product or service gain acceptance by the community. A good public relations program pays off by increasing the sales of a product or service. A public relations program might consist of several elements, such as participation in the community, educational tours of facilities, or newsletters. A good product or service, a good physical appearance, trained and courteous employees, and good service are also important in developing a good image for a business.

Sales promotion is a third component of promotional campaigns. It includes the use of coupons, rebates, contests and sweepstakes, and visual merchandising such as displays. The goal of using these devices is to increase the sales of a business by encouraging customers to make purchases. Coupons and rebates induce customers to purchase a particular product by offering savings. Contests and sweepstakes generate excitement about a product or business. Displays attract buyers by using the well-designed presentation or the product itself to catch the attention of potential customers.

Of these sales promotion devices, display is the most complex to use because it involves visual presentation and must be put together to be appealing to the eye. Displays promote either a product or a business. A product display involves making a prominent exhibit of the product or service being sold. Product displays vary, from counter displays, to large stacked displays in retail stores, to window displays, to products featured at fairs, trade shows, or other exhibits. Institutional displays serve a public relations function, promoting the image of the business rather than a specific product. Examples of institutional displays include displays devoted to a community activity in which the business participates and decorations for holidays.

Personal selling is the fourth component of a promotional campaign. It often requires the person selling a product or service to perform the tasks of advertising, public relations, and sales promotion. He or she must add personal persuasion to these elements in a sales presentation made to convince the potential customer to make a purchase. Personal selling involves advertising in that the person selling the product must present the merits of the product or service. Public relations is a part of personal selling because the salesperson must promote goodwill toward the business by creating a positive image. A salesperson is involved in the product display aspect of sales promotion because he or she must show the product in a positive way to persuade the potential buyer that the product being sold meets his or her needs.

Personal selling may also require that different people perform various tasks to complete a sale. Even businesses that people consider to be self-service require certain aspects of personal selling to complete or increase sales. The person who greets customers as they enter a business performs a public relations function by making customers feel welcome and letting them know they are appreciated. The person who directs a customer to the location of a product, the person who operates the cash register, and the person who is responsible for keeping the business clean and orderly all perform public relations tasks. A person who puts signs or labels on merchandise is involved in advertising the price or description of the product being sold. The employee who fills the counters or creates a display performs the sales promotion segment of personal selling.

Ultimately, promoting sales is the responsibility of all employees of a business. Promotional campaigns are a vital part of a market economy in a free enterprise system like the United States. By encouraging customers to make purchases, they provide the means by which businesses can make a profit.

Determining Promotional Strategies

Determining the best promotional strategy for a business will depend on the type of business it is and the product or service it provides. A carry-out pizza place might not remain in business if it were not listed in the yellow pages of the phone directory, because that is the first place customers will look for information about that type of business. An insurance agency would not do very well without personal sales of policies, because customers require a great deal of information to convince them to purchase an intangible product. Although a particular promotional strategy may work best for a business, however, the right combination of advertising, public relations, product display, and personal selling forms a promotional mix that is the formula for success for most businesses. The pizza place might rely heavily on the advertisement in the yellow pages, but personal selling may be used to obtain extra sales; employees might ask whether customers would like some bread sticks or a beverage with their order. The insurance company may rely heavily on personal selling, but advertising to raise the confidence of customers is also a major promotional tool for insurance companies. The slogans, "Like a good neighbor," "You're in good hands," and "The Rock," are readily identified with State Farm, Allstate, and Prudential.

The result of any promotional campaign should be an increase in demand for the product, service, or institution being promoted. One question that needs to be answered when formulating a promotional campaign is what segment of the population forms the market. The next question that needs to be answered is what promotional tool will be the most effective at reaching that market. The final question that needs to be answered is how demand for the product or service can be generated. The amount of money to fund a campaign available will also influence the promotional strategies chosen by a business.

To choose a successful promotional strategy, a business needs to know who its target customers are. It therefore needs to examine the characteristics of the market for its product or service. Information on place of residence, age, sex, income, preferred media source of information, and the competitors that potential customers currently patronize is important. A business also needs to determine what motivates the target customer to buy a product or service--price, quality, prestige, etc. Once all this information has been gathered, the business can use it to determine the form of promotion that will reach the most customers and how demand for a product or service can be created. For example, information on where targeted customers live suggests where the business should focus a public relations activity to do it the most good. A business can use data on the age, sex, and income of customers to determine whether an ad should be placed in the sports, business, or community news section of the newspaper.

To determine the effectiveness of a promotional method, information on its cost, the total number of people reached, how often potential customers come in contact with the promotional message, and the level of sales generated is required. A business can gather this information in several ways. New businesses often conduct surveys that question customers about where they heard about a product or service, which may indicate that one part of a promotional campaign is more effective than another. Businesses that include coupons in their newspaper advertisements can use details about where the ad is placed and how many coupons are returned to determine what sections of the newspaper offer the best return and which items draw the greatest response. Newspapers and radio and television stations may give a business information about their audience. If the sales and general effectiveness of a promotional strategy do not justify its cost, the campaign may need to be changed.

A business needs to know exactly how and where competitors promote their product or service to be able to improve on their strategies. The business might run a special sale on an item as a part of its promotional campaign, but if the price is still higher than a competitor's, the promotion is wasted. One way to avoid such problems is to keep a record of the promotions carried out by competitors in the past. Information on past prices, especially on competitive items, can be especially helpful when planning a promotional campaign.

Example: Jerry has operated a lawn and garden center for several years. He sells trees, shrubs, evergreens, annuals, and perennials, and repairs lawn mowers, gasoline trimmers, and chain saws. Jerry has the only business of this type in the community and is doing well. He has now decided to expand his business to include selling new lawn mowers, trimmers, and chain saws. Another business in town sells the same products, and Jerry wants to find out how he can create a demand for his own. He talks to several of his customers who have purchased products from his competitor, asking them what they liked and disliked about purchasing lawn equipment from the other business. Some customers tell him that they liked the low prices on some of the equipment, while others liked the fact that they could buy higher-priced, quality products. Jerry receives the same answer on what they disliked. All of the people he asks say that they disliked purchasing a product and then having to take it somewhere else to have it serviced or repaired.

Using this information, Jerry puts together the following promotional campaign for the first year to test the market.

- Create a prominent display area for the new merchandise.
- In his next lawn and garden newspaper advertisement, include one low-priced lawn mower and trimmer and one high quality lawn mower and trimmer. Feature them at a lower price than the competition. At the bottom of the advertisement, print in large letters "WE SELL AND SERVICE LAWNMOWERS, TRIMMERS, AND CHAIN SAWS."
- Run a similar program in late summer for chain saws to promote chain saws for the peak fall selling season.
- Change the advertisement in the yellow pages to include the phrase "Sales and service of lawn equipment."
- Instruct all of his employees to include the information in their personal selling presentations that the business not only sells but also services and repairs lawnmowers, trimmers, and chain saws.

- Include the store's name and address and the telephone number to call for service or repair on all product displays, packages, and business cards.

- Sponsor a youth softball team.

Jerry used information on what his target customers liked and what motivated them to buy to design his promotional campaign. He has used advertisements, public relations, sales promotion, and personal selling to increase demand for the product and service. Once Jerry sees how the changes affected sales and studies how his competitor reacts to his promotion, he can make further adjustments to the promotional campaign.

Summary

The components of a promotional campaign include advertising, public relations, sales promotion, and personal selling. Knowing how to develop a promotional campaign is important to a business because such campaigns are expensive and need to be used wisely to create sales. Choosing the right combination of components for a promotional campaign depends on the type of business, the market for the product, the effectiveness of different promotional strategies, and the strategies used by the competition.

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Lesson 2:
Advertising

Advertising is essential in building a business. Because of its expense, advertising needs to be used effectively to reach as many customers as the advertising budget allows.

Advertising Media

Advertising media are the means of communication by which a business tries to encourage customers to purchase a product or service. The advertising media available to a business may vary depending on the size and location of the community. Newspapers, magazines, billboards, and direct mail are all commonly used forms of print media, in which advertisements are presented in writing. Radio and television are forms of broadcast media. Internet technology has now made web advertising another option for businesses.

Newspapers are the main source of advertising for many types of businesses because of their many advantages. They are popular with businesses because they are generally available in most communities, which allows a local business to reach its customers with information. Newspapers also have a large readership, because they have in-depth coverage of national and/or local news stories as well as coupons for various products and businesses. These coupons are an important asset in advertising, because they can be used by the customer. The circulation of a paper is known, which allows a business to insert advertisements that can reach a targeted group of customers. Newspapers are especially useful for promoting specific items and can create sales very quickly. Another benefit of newspaper advertising is that space can be purchased and ads printed in a very short time, making changing existing advertisements to meet new circumstances fairly simple. Finally, newspapers are a relatively inexpensive way of advertising due in part to the quality of the printing and paper. In addition, many daily papers charge subscribers for the newspapers, which lowers the cost of publishing and therefore the cost of advertising.

Newspaper advertising also has certain disadvantages. Many newspapers have a wider circulation than a business's targeted customers, and the advertiser must pay to reach people who will not be interested in the product or service. A newspaper ad may not be very noticeable because of the large number of advertisements that appear in the newspaper. The advertisement may have limited usefulness, since many subscribers will dispose of the newspaper after it is read. Newspaper ads may not be very attractive because of their quality.

Magazines are often used to advertise to a national audience, although some areas may have local magazines for a city or region. Magazines used for advertising may include general interest magazines that will reach a wide audience, specialty magazines that are targeted at people with particular interests (hunting or music, for example), or trade publications that are aimed at a specific business area. One major advantage of magazines as an advertising medium is that the characteristics of the readers are known, which allows advertisers to select a magazine that targets their business's customers. A business that sells sporting goods would advertise in a sports magazine, while a business that provides medical supplies would advertise in a trade magazine. A second advantage is that magazines are often read more slowly and thoroughly and are kept for longer period, both of which make it more likely that an advertisement will be read. The quality of magazine ads is also generally much better than newspapers. Most magazines use high quality, glossy paper and include full color ads.

Compared to newspapers, advertising in magazines has less appeal for small businesses. Most magazines have a wider readership than the geographic area served by a small business. Advertising dollars would be wasted outside the business's market. Because of wider circulation and increased costs for paper and printing, magazine advertisements are much more expensive than newspaper ads. Finally, because the ads must be submitted six to eight weeks before the publication date, magazine advertising is not very flexible.

Most billboards are located on major highways to inform passing motorists of the services available in nearby communities. While they are still commonly used by both national and local advertisers, concerns about safety and the quality of the scenery have led some areas to restrict their size and usage. The advantage of billboard advertising is that the location of the billboard--next to major roads where it may be read by potential customers for 24 hours a day--allows many people to read it. Billboards are also relatively inexpensive compared to other forms of advertising.

Advertising on billboards has some negative features. The message on a billboard must be simple. A customer will only have a short period of time to read the message. In addition, some people try to ignore billboards because they consider them to be a form of highway litter and a hazard to traffic safety.

Both large and small businesses may advertise through direct mail by gathering lists of previous or prospective customers and sending them some sort of mailing to advertise their product or service. Some companies sell lists of potential customers to other businesses to use for direct mail advertising. Advertisers can be highly selective when deciding who will receive the advertisement, which gives the ad a better chance of reaching the target audience. Direct mail advertising can be a timely method of informing customers about the business. It can make use of many different formats, giving the advertiser a wider choice about how an advertisement will be put together. Finally, using direct mail can keep competitors from seeing the advertisement.

A disadvantage to direct mail advertising is that mailing lists can become outdated. The advertisement is then not received by the intended targeted customer. Another problem is the advertising dollars may be wasted on direct mail, because many people see the mailings as junk mail and discard them.

Radio advertisements consist of spots ranging from fifteen seconds to a minute in length. It is fairly inexpensive, particularly when compared with magazine or television advertising. Radio advertising is available in most communities, providing wide coverage of the market that is very useful for local businesses. Advertisers using radio can target specific types of customers by advertising on radio stations to which they are more likely to listen. Most radio stations do extensive market research to gather information on the type of people that listen to their station. Another advantage is that radio advertisements can reach customers wherever a radio is present. Many people listen to their radios in their cars, at work, while exercising, or even while attending a sporting event. Radio advertising is also very flexible; ads can be adjusted just by changing the announcer's script.

Advertising on the radio has some disadvantages for advertisers. The ad lasts a very brief time and leaves the potential customer with no reference for the information. Because no visual component is provided, listeners may also be easily distracted during advertisements. The short life of ads and the possibility of being distracted makes repetition necessary for successful radio advertising. Most radio advertisements are repeated several times during a day to increase the likelihood that potential customers will receive the message.

Advertising spots on television range in length from ten seconds to one minute, with 30 seconds being the most common length. The cost varies according to length and when the commercial is aired. The prime time hours of 7 to 11 p.m. are the most expensive. Television commercials have the advantage of consisting of both visual and audio elements that can appeal to an audience. Repetition is still a necessary feature, but the message has a greater chance of catching the attention of targeted customers because of the added visual element. Another benefit of the visual component is that people are more likely to accept what they can see. Television can also be used to reach a mass national audience or on a regional level.

While television advertising does have several benefits, television is also the most expensive advertising medium. The high cost keeps many small businesses from using television for advertising or limits them to using it only during less desirable time slots when rates are cheaper. A second disadvantage is that the size of the audience fluctuates according to viewer interests. Many viewers consider commercials a nuisance and ignore them. Viewers also may not be interested in the programming airing on that station when the commercial is broadcast; the majority of viewers may be watching something else. In either case, advertising dollars are wasted.

The increasing use of the Internet as a means of communicating information has led many businesses to hire Internet marketing businesses and web page development companies to develop web advertising as a part of their advertising mix. In addition to web sites promoting their products or services, some businesses also post banner advertisements on sites that many people visit, such as search engines, with links to their web pages. Advertising on the Internet can have several advantages. Advertising on the Internet can potentially reach millions of customers. Because of the growing number of Internet marketing and web page development businesses, prices are becoming very competitive. The costs of implementing a home page can be relatively low compared to other forms of advertising. Internet advertising can therefore be a cost effective way of reaching a large number of consumers. Another advantage is that the technology of the Internet allows advertising to be very creative. Sound and animation can be used to enhance the web site and attract customers. Disadvantages include the difficulty customers may have in finding the advertisement of a particular business among the huge number of web pages available on the Internet. A second disadvantage is that it is difficult to determine how effective the page may be in attracting customers, leading to wasted advertising dollars.

Components of an Advertisement

Certain guidelines should be followed to develop an effective advertisement. The necessary components of print advertisements include the headline, copy, illustration, and signature or logo. These elements are illustrated in Figure 2.1 on the next page.

The headline is the line of print that is designed to catch the reader's attention. Headlines should be short and have a single, simple main idea. They should tell the reader only enough to attract interest and entice him or her to read the rest of the advertisement. A headline might announce a new product or include information to shock or surprise the reader. Putting a new spin on familiar phrases or sayings or using strategies like puns or plays on words can be very effective in getting the reader to examine the rest of the ad. Good headlines often appeal to the reader's self-interest in some way.

The copy is the main message of the advertisement. The copy should give more information related to the headline. It may be relatively short or consist of a number of paragraphs of information, depending on the needs and interests of the audience. The copy should make contact with the audience. Contact might be established by appealing to the reader's senses, using a dramatic tone, giving important information about a product or service, or explaining its benefits. The goal of establishing contact is to encourage enough interest in the reader for him or her to purchase the product or service being advertised. The copy should therefore also include a call to take action and make a purchase.

The illustration is the picture or drawing in the advertisement. The illustration is usually the first part of the ad to attract the reader's attention. It should encourage the potential consumer to read the advertisement and make a purchase. The illustration might highlight the product itself or explain the need for it. It might also give a sense of the product's benefits or uses.

The signature or logo is the symbol of the business. A well-designed signature is instantly recognizable. The signature generally consists of the name of the business as well as a trademark (like the Nike swoosh). It might incorporate a slogan--a short phrase that is identified with a business. For a local business, the signature could also include general information about the business, such as its address, telephone number, and hours of operation.

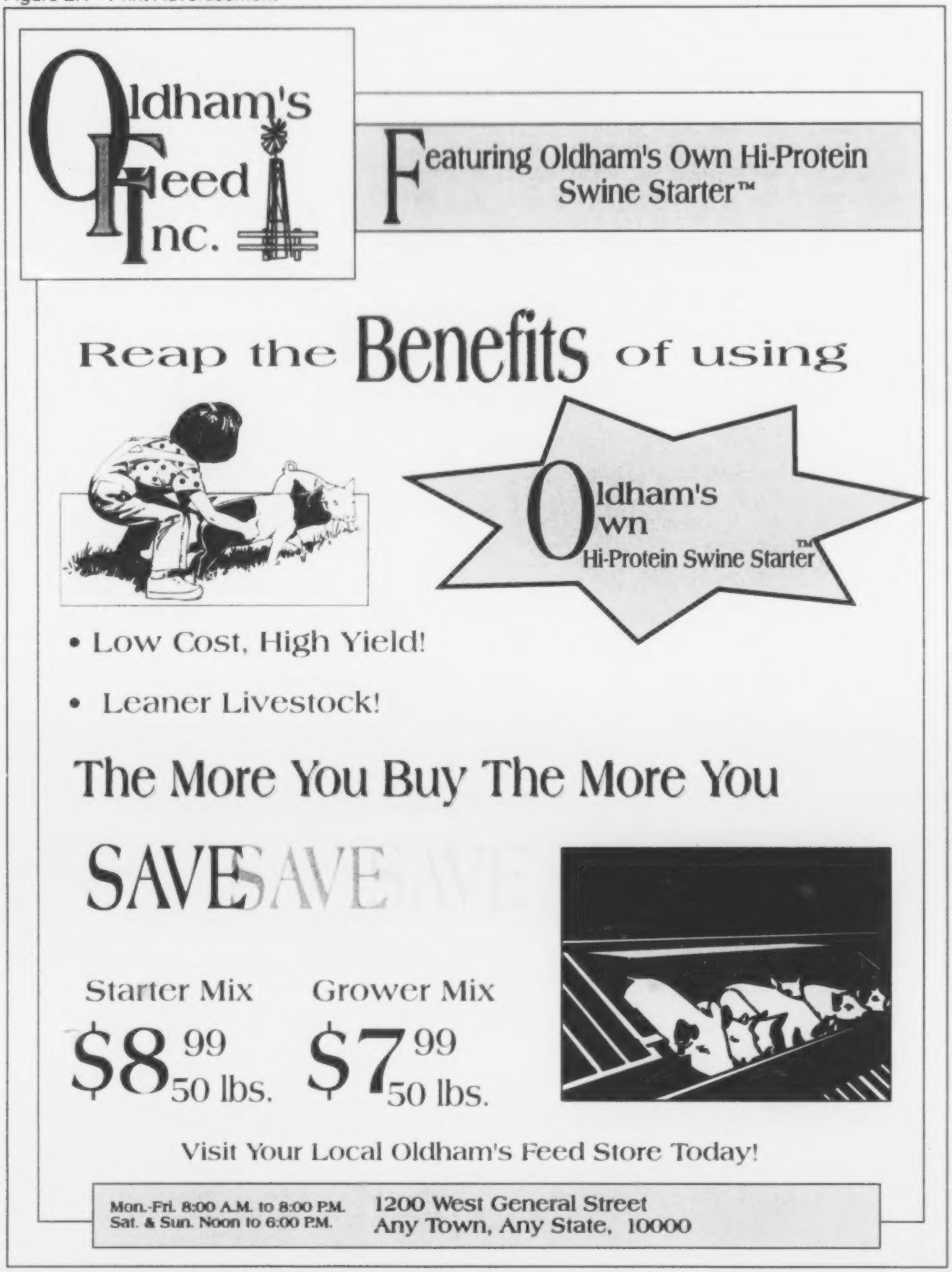
The layout of these elements in an advertisement can affect how effective it is. For example, the advertisement in Figure 2.1 is laid out in a "z" formation. The content of the ad roughly forms the shape of a "z," which helps the customer's eye flow to the most important information.

Billboards differ from other forms of print advertising in that they must be extremely short. The main component of a billboard advertisement is a short message that attracts the attention of the potential customer in a very brief period. It must convey the message quickly because potential customers pass by rapidly. In addition to this short message, a billboard should include an illustration and the signature of the business.

The key component of both radio and television advertisements is the script. The script can be read by a single announcer, or it can be more elaborate, with dialogue, music, and sound effects. The script can be written to dramatize a scene or incorporate customer interviews. It needs to be delivered by believable announcers or actors who inspires listeners to pay attention to the advertisement. Many radio and television commercials include a jingle associated with a business.

Television advertising also incorporates a vital visual element that appeals to the viewer's sense of sight. The ability of television to allow potential customers to see as well as hear the advertising message encourages the use of creative methods to grab the viewer's attention. Television advertising can include product demonstrations, dramatizations of events, and special effects. A television

Figure 2.1 - Print Advertisement



Oldham's Feed Inc.

Featuring Oldham's Own Hi-Protein Swine Starter™

Reap the **Benefits** of using

Oldham's Own Hi-Protein Swine Starter™

- Low Cost, High Yield!
- Leaner Livestock!

The More You Buy The More You

SAVE SAVE SAVE

Starter Mix	Grower Mix
\$8.99 50 lbs.	\$7.99 50 lbs.

Visit Your Local Oldham's Feed Store Today!

Mon.-Fri. 8:00 A.M. to 8:00 P.M.
Sat. & Sun. Noon to 6:00 P.M.

1200 West General Street
Any Town, Any State, 10000

advertisement can be delivered with action and color that effectively attract the viewer and encourage him or her to buy the product or service.

Creativity is important in developing any type of advertisement. The potential customer should be able to separate a business from its competitors based on its advertising. The imagination and creativity displayed in an ad may play a large role in convincing the customer to buy a product from a business rather than its competitors. Many newspapers, radio and television stations, magazines, and billboard advertising companies offer free services to individuals and businesses to help them develop ideas and produce advertisements. Professional advertising agencies can also be hired to help businesses develop advertising campaigns.

Summary

Many alternatives exist for advertising, including various types of both print and broadcast media. For some businesses, one advertising method may be all that is necessary for an effective advertising program, while other businesses may need to utilize a combination of several methods to reach their customers. When choosing a form of advertising, a business must take into account its advantages and disadvantages. It should also make sure that any ads it develops have the necessary components to make them effective in attracting customers.

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Lesson 3:
Public Relations

Many businesses use public relations as a promotional tool, not to promote a product, but to promote the business itself. A good public relations program can build approval for a business and its employees within the community. Although public relations can help a business, no promotional tool can offset an unsatisfactory product or service. A history of satisfied customers and employees provides the best public relations for a business.

Public Relations

Public relations involves attempting to create a positive image of a business. The primary function of a public relations campaign is to promote goodwill toward the business. It is designed to gain acceptance of a business and its product or service by the community to win the loyalty of customers. A public relations program should also contribute to an increase in sales by appealing to prospective customers.

Components of a Public Relations Campaign

A public relations campaign may consist of several different activities. Businesses need to take their needs and budget for public relations into consideration when choosing the activities for campaigns.

One component of a public relations campaign is community participation. Community participation has become a common promotional tool for public relations. It may include providing financial support for charities and local organizations like the United Way or the local Chamber of Commerce. Community participation may also involve encouraging and supporting employees who become involved in community programs and activities such as fund-raising programs, community clean-up projects, restoring community landmarks, remodeling a city park, or other projects that help the community. By participating in community activities, a business can show that it recognizes its responsibility to the community. It also helps the business to identify the needs of consumers and problem areas connected to its activities by providing members of the community with an opportunity to personally present their concerns about a business to its employees. By identifying problems or misunderstandings, a business can use participation in the community to help correct them. Community participation has the added benefit of providing a means for businesses to work together within a community to fulfill common goals.

Many businesses host educational tours as part of a public relations program. Tours help the youth and other members of the community obtain a better understanding of the business and its product. Some businesses work with local schools to aid in instruction by providing students with real-life examples that relate to material they have been studying. This public relations activity makes education more interesting for students in addition to helping the community to comprehend the activities of the business in producing a product or service.

A business may promote public relations by providing support for youth. Businesses frequently sponsor awards to support excellence in education. These awards might consist of scholarships for college or technical school or certificates for outstanding achievement. Another way that business provides support for youth is by sponsoring athletic teams or other activities. Supporting youth by providing awards and activities encourages parents to support the business in return. The business also tries to retain the loyalty of the young people.

The activities of a business may be newsworthy, and it may make press releases to local media are an important part of a public relations campaign. They provide the business with publicity, which consists of creating demand by releasing news about a product or business. Publicity differs from advertising in that the business does not pay for publicity. Events that could be reported include expansions that will provide new jobs for the community, a good safety record, product or service improvements, environmental improvements, or programs to inform the public about the use of a product or service. This type of information can aid in creating a stable image of a business as part of the community. Press releases can also be a very cost-effective method of public relations.

Businesses may use advertisements to promote public relations as well as a product or service. They might encourage customers to use what they provide by creating a feeling of goodwill toward the business. Such ads might feature a slogan like "Your Hometown Supplier of Agricultural Goods" to encourage positive feelings toward a business.

Some businesses provide speakers for community groups. Many businesses have employees who have expertise in certain areas. An agribusiness might supply speakers who can provide information to agricultural producers on animal medications, animal nutrition, agricultural chemicals, or agricultural seeds and fertilizers. While they might provide general information that is useful to an audience, these speakers may also publicize the product or service supplied by the business. They therefore serve a dual purpose of public relations and promotions.

More businesses have begun publishing their own periodicals as a part of their public relations program. These periodicals are circulated to all the employees of the business. The periodicals may be newsletters or direct mail flyers that contain information about the business or its employees. The information in such periodicals may include employee promotions, business developments, technical developments, or special problems facing a particular business or industry. Their purpose is to make employees aware of company news and activities in order to enable and encourage them to promote the business to others outside the company by inspiring pride and interest.

To improve public relations, businesses may also provide facilities for community meetings or activities. Many retail stores offer their facilities for bake sales, car washes, and community or national fund-raising activities. Allowing others to use the business' facilities encourages people to support that business in return.

Businesses should always take advantage of opportunities to improve their image in the community and to increase the demand for their product or service. Public relations can help a business prosper because consumers like to do business with companies they like and respect.

Developing a Public Relations Campaign

As with any other type of promotional campaign, a public relations campaign must meet a business's needs. When developing a public relations campaign, a business should consider the identity of the target customer. A business involved in providing agricultural products or services needs to target the customers for them, while a retailer who sells general merchandise must target the community as a whole. A public relations program should be appropriate for the audience that the business wishes to reach.

Decisions need to be made about how the program will operate within budgetary constraints. Businesses with little or no budget for public relations may take advantage of inexpensive opportunities to improve public relations by allowing others to use their facilities for community meetings or fund-raisers. They might also contact the local news media to inform them of important news about the business or its employees. In some cases, members of management and employees of a business may donate their time to community projects.

Decisions also need to be made about who will take responsibility for the campaign. In too many cases, a new employee or a member of management is assigned the duty of public relations. However, having one person be responsible for a campaign along with his or her other work generally does not create an effective program, although it may be unavoidable in a small business. Many larger businesses find that a public relations advisory committee works best. The members of the committee can divide the work and make joint decisions about how funds can and should be used best to create goodwill. The advisory committee can decide what they want the public relations campaign to accomplish and then work toward those goals.

If the management approves, the program can be carried out. The business should monitor the program to see if it is reaching its goals and make changes when needed.

The business should designate someone to be responsible for reporting public relations activities to local news media to get publicity. Often, a business with a well-planned public relations program can take advantage of opportunities to generate goodwill in spite of having little or no public relations budget.

The business and its management should recognize employees who donate their time to the community for helping the community and creating goodwill toward the business. Recognizing individual employees for their involvement in the community is just another way of using public relations as a tool to create goodwill. Employees who like and respect the business they work for will praise it to other members of the community.

Even after putting together a good public relations campaign, a business should remember that the best form of public relations is making sure customers are satisfied. A business that provides a quality product or service that customers rely on is already promoting good public relations. Employees can enhance this aspect of public relations every day by encouraging positive feelings toward the business through friendly and courteous behavior.

Summary

The function of a public relations program is to build goodwill toward a business. Community participation, educational tours, sponsorship of youth awards and activities, media coverage, informational speakers, and the use of business facilities are some activities businesses include in public relations campaigns. However, the best method of public relations for a business is a history of satisfied customers and employees.

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Lesson 1:
The Free Market System

The economy of the United States is based on a free market system, which operates through free competition of individuals and businesses in economic markets. This system stands in contrast to the economic systems in communist and socialist countries in which government control limits free competition and entrepreneurial enterprise.

Characteristics of American Free Enterprise

A free enterprise system is an economic system in which goods and services are produced and traded through a complicated system of prices and markets by private individuals and businesses. The interests of the people are met by the maximum production of whatever they demand by businesses motivated by competition and the reward of profit. The American free enterprise system has four key characteristics.

The first characteristic is private ownership of the land and capital needed for production. Capital is defined as the buildings, machines, and other equipment used to produce goods and services for a profit. In any business venture, the potential reward of profit motivates individuals and business firms to risk their private capital.

The second characteristic of a free enterprise system is organization and coordination of economic activity through the interaction of buyers and sellers or buyers and producers in the different markets. This interaction is guided by the needs of the buyers and the ability of the seller or producer to meet these needs. An important concept to keep in mind when considering this aspect of the free enterprise system is consumer sovereignty. Consumer sovereignty is the freedom of consumers to spend income in ways that will create the most satisfaction for them. Producers are forced to produce what best satisfies the needs of consumers. If they do not, their competitors who do meet those needs will receive the profits. Self-interest thus guides the production of goods and services.

The third characteristic is freedom of the owners of land and capital and the workers that they employ to pursue their own interests in seeking maximum gain from the use of their resources and labor in production. While consumers are free to spend their income in ways they believe will yield the greatest satisfaction, businesses and workers are free to seek the most profit possible from what they produce.

The fourth characteristic of a free enterprise system is minimal government supervision. If competition is present, economic activity will be self-regulated. For example, if one company can produce an item better or more cheaply than its competitors, they will be forced to try to equal its performance or lose profits. Less government involvement is needed because competition in the market meets the needs of the consumers for inexpensive, well-made goods. Freedom of choice, which is a major part of the free enterprise system, introduces the element of competition into the business world. In a free enterprise system, the government does not limit the choices of entrepreneurs; everyone has the right to invest his or her money in any type of business and compete with others in the marketplace.

The free enterprise system is one in which people can spend and invest money as they see fit. Consumers can buy what they want. Business people can freely choose how to handle their resources and will either reap the profits or suffer the losses of their investment choices. This system has helped make the United States an economic giant.

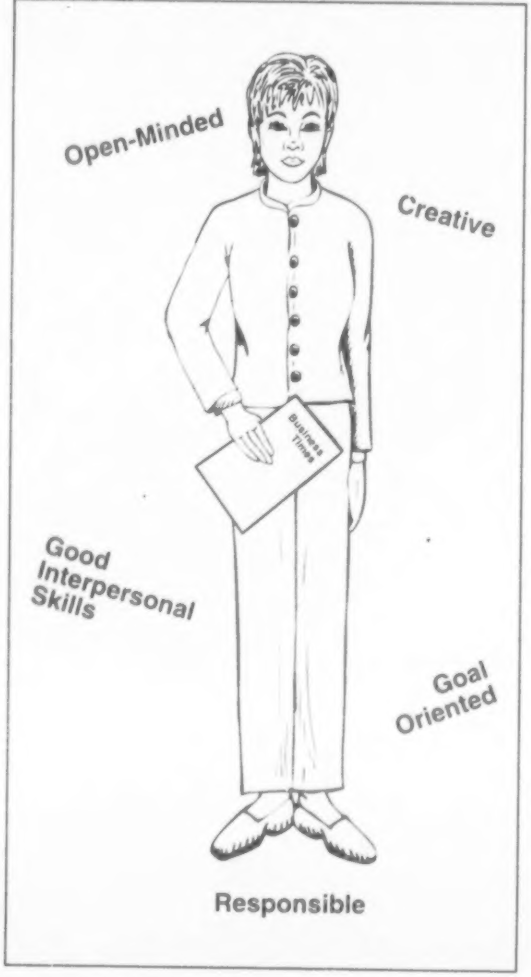
What Is an Entrepreneur?

The free enterprise system encourages entrepreneurship. An entrepreneur is a person who organizes and manages a business, assuming the risk for the reward of profit. Individuals become entrepreneurs by investing their resources and setting up businesses to produce products or offer services that are desired by consumers.

Many people have been entrepreneurs at one time or another. If an individual has ever sold lemonade from a stand in the yard, mowed lawns in the summer, shoveled snow in the winter, or baby-sat, he or she has been an entrepreneur. The risk need not have been great nor the business large, so long as a needed product or service was provided. If a profit was made, then the individual joined the ranks of successful entrepreneurs.

Entrepreneurs seem to have a combination of personal characteristics that are not present in everyone. They are creative in thinking of new ways to solve problems. They usually take responsibility for their own actions and will accept the blame for

Figure 1.1 - Characteristics of an Entrepreneur



failures or problems. Entrepreneurs develop plans and then work to achieve their goals. They are open-minded leaders who are not afraid to ask for advice. Finally, successful entrepreneurs have good interpersonal skills and can get others to follow directions. While not all of these characteristics are essential for success, individuals who do possess them are most likely to succeed as entrepreneurs.

Advantages and Disadvantages

Becoming an entrepreneur has a number of advantages. For example, a person is his or her own boss. Entrepreneurs would rather control their own destiny than work for someone else, even if it means risking losses. Careers in the companies of others are not rewarding.

Another advantage is that entrepreneurs have the chance to profit if their efforts are successful and their businesses prosper. Since they are not working for someone else, they receive the rewards of profit directly, increasing their capital. They can then use the profits as they see fit, perhaps using them to expand.

An entrepreneur can capitalize on creativity. If an individual has an idea for a business, and the idea is a good one, he or she can make money from it. A new business presents an entrepreneur with ample opportunity for creative management.

Being an entrepreneur can create pride and self-satisfaction. Starting a business is something to be proud of in itself. A great deal of self-satisfaction is also involved in running a successful business and offering a product or service that people want.

A final advantage of entrepreneurship is that it allows an individual to be involved in all aspects of a business and perform a variety of tasks. Entrepreneurs are concerned with all the objectives of the business, such as revenue growth, financial strength, market reputation, competitive ability, leadership, and operating efficiency. The entrepreneur is the one responsible for solving the problems that face the business and obtaining the desired results.

Becoming an entrepreneur also has some disadvantages that an individual would not face working for someone else. An entrepreneur takes risks by investing resources to start and maintain the business. The business may fail and the entrepreneur may lose his or her investment. Starting and running a business often requires more time and energy than other jobs. Not everyone is motivated or energetic enough to assume the extra work and responsibility of being the boss.

The Success and Failure of Small Businesses

Before an entrepreneur invests capital in a business, it is important that he or she carefully evaluates the proposed business. An entrepreneur needs to formulate a plan for starting the business; one of the most common reasons for the failure of small businesses is lack of planning. The plan should include an analysis of competitors. Entrepreneurs need to look at who will buy their product and what material and capital will be needed to operate their business. An entrepreneur needs to decide whether to rent or buy property and then choose the right location for the business, making sure that it has enough floor space and room for expansion. The plan should include an estimate of the number of additional employees who will be needed in the business and the necessary qualifications of these employees. Entrepreneurs also need to be able to estimate the income and expenses the business will have in its first year. Finally, the entrepreneur must plan how to accumulate the capital necessary to start the business.

In spite of planning, a business may not be successful. Consumers may not exhibit the expected demand for a product or service. Competitors may be more efficient, be able to sell a product or service for less, or have better qualified employees working for them.

Summary

The four key characteristics of the free enterprise system are private ownership of land and capital for production, organization of economic activity through the action of buyers and sellers or producers in the different markets, freedom of owners of land and capital and the workers that they employ to seek maximum gain for the use of their resources and labor in production, and minimal government supervision. This economic system encourages individuals to become entrepreneurs, who are people who organize and manage a business, assuming the risk for the potential profit. The entrepreneur has to look for ~~a~~ good opportunity, based on what consumers want, and then develop a plan to start a business that meets the demand.

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Lesson 2:
Business Ownership

When planning to open a business, the entrepreneur must decide not only what type of business it will be, but also what form of business ownership will be used. Each type of ownership has certain advantages and disadvantages, which must be carefully weighed. The entrepreneur must also consider the laws and regulations that will affect the business when planning its opening.

Types of Businesses

In the business world, different types of businesses fulfill different functions. Some businesses produce tangible items. Some businesses perform the various market functions that are involved in the purchase and sale of these goods as they move from producer to consumer. Other businesses provide services rather than goods.

Manufacturers, processors, and producers take raw materials and transform them into marketable products. Businesses in this category would include a mill that produces fabrics from cotton, a manufacturer that produces parts for and assembles agricultural machinery, and an agricultural producer that grows and sells a crop to a processor to be canned or bottled.

Middlemen are individuals or businesses that specialize in performing the various marketing functions involved in the purchase and sale of goods as the goods move from the manufacturer, processor, or producer to consumers. Retailers are middlemen who sell products directly to the ultimate consumers. Most middlemen are retailers. Other middlemen are wholesalers who sell to retailers, other wholesalers, and industrial users. They do not sell significant amounts of merchandise to individual consumers, however. Wholesalers may handle many products or specialize in a limited number of products. One type of agricultural wholesaler is the local buyer who purchases goods directly from the producers and then ships the products to other areas where they are sold to other wholesalers and processors. This type of wholesaler includes local grain elevators and livestock buyers.

Service businesses do not produce or market tangible products; instead they offer services to consumers. Service businesses include insurance companies, repair shops, financial institutions, and many other business that offer services to manufacturers, producers, processors, middlemen, and consumers.

Forms of Business Ownership

The four basic legal forms of business ownership are the sole proprietorship, partnership, corporation, and cooperative. Often the amount of capital available is a deciding factor in choosing the form for a new business.

Sole proprietorship - In a sole proprietorship, the business is owned by one person. The owner is in charge of the business and is responsible for its success or failure.

Partnership - A partnership is a business association of two or more persons who have agreed to combine their financial assets, labor, property, and skills. A partnership contract may outline the general policies of the business, distribution of profit, partners' responsibilities, and term of the contract.

Corporation - A corporation is a separate legal entity owned by other people. Corporation laws, which establish the requirements for the entity that may incorporate, are set forth by each state. Corporations are established by raising capital from the sale of certificates of stock. Persons who invest in a corporation by buying its stock are called shareholders. Shareholders elect the board of directors and can exert a degree of control over policy decisions based on the number of shares they own. They receive their portion of the profits through dividends determined by their percentage of the total stock.

Cooperative - A cooperative is a special type of business. It is a system characterized by the absence of the profit motive. Its primary function is the distribution of goods and services. Cooperatives are owned, and in some cases operated, by members, who are individuals or businesses that join together to market their goods or services; a person involved in a cooperative may not own more than 8 percent of the cooperative. Cooperation with other businesses that offer the same type of product or service helps members to reduce costs. Many rural electric and water companies are cooperatives. They provide a service needed by residents and businesses and reduce utility costs.

A business may change from one form of ownership to another. For example, a hamburger stand in San Bernardino, California, changed from a sole proprietorship to a partnership and then to a corporation to obtain the capital necessary for expansion. The business was originally owned by an individual, but it was doing well, so the owner brought his brother into the business as a partner to help with the operation. They thought of expanding, but they had no real reason to do so--they were already making about $100,000 a year, and neither of them had a family. The business was known for fast and friendly service and for great hamburgers, fries, and milkshakes.

The business would probably not have changed if a man named Ray Kroc, a distributor of milkshake machines, had not noticed that the business had bought more milkshake machines than any other restaurant in the country. His curiosity led him to visit the brothers' business. He was very impressed with the hamburger stand and envisioned hundreds of possible locations where similar hamburger stands could be opened. Kroc enjoyed traveling and convinced the brothers to let him take over a franchising effort to open hamburger stands across the country. They decided to use the same name as that of the original hamburger stand in San Bernardino, which was taken from the brothers' last name--McDonald's.

Advantages and Disadvantages of the Forms of Ownership

Before choosing a particular type of business ownership, an entrepreneur should carefully consider the advantages and disadvantages of each. He or she should choose the form that will be most beneficial.

One of the main advantages of a sole proprietorship is that the individual who owns the business is his or her own boss. Making decisions or forming policies does not require obtaining permission from partners or shareholders. A sole proprietorship is also easy to establish, since it does not involve drawing up partnership agreements, issuing certificates of stock, or finding stockholders. A third advantage is that all the profits from the business go to the owner. In addition, these profits are taxed only once, when they are received by the owner.

A sole proprietorship has disadvantages as well. The sole proprietor is seldom able to invest as much capital as can be secured by a partnership or corporation. In addition, liability is unlimited, which means that the owner is personally responsible for paying all the debts and taxes of the business, even if it has losses. The money may come from selling personal assets or from personal savings. Finally, in a sole proprietorship, the owner has to bear the burden of responsibility for overseeing the operation of the business. If the sole proprietor becomes sick or has personal problems, no one else may be able to run the business.

A partnership has several advantages. One of the biggest advantages of forming a partnership is that someone is available to share the responsibilities and problems of managing a business. Also, financial institutions are more likely to lend money to a partnership because two or more people are responsible for the debts of the business. Profits are shared only by the partners, and they are taxed only once.

A partnership also has disadvantages. Unless a limited partnership has been established, in which one of the partners assumes complete financial responsibility for losses, all parties in the partnership share equally the burden of loss and debt. Since partnerships have unlimited liability, if one partner goes bankrupt, the other partners are still responsible for the debt. Another disadvantage is that each partner can enter into a contract without the permission of the other partner or partners, yet all the partners are equally responsible for fulfilling the contract.

The chief advantage of corporate ownership is that stockholders have limited liability. The debts of the corporation are the responsibility of the corporation and not the individual stockholders. The most a shareholder can lose is the amount paid for the certificates of stock. A second advantage is that if the corporation is doing well, getting loans from financial institutions is easier than for a sole proprietorship or partnership. A corporation can also sell additional shares of stock to raise funds.

Corporate ownership has disadvantages, too. A corporate certificate must first be issued by the state, and the certificate may be expensive. All decisions about the corporation must be made and approved by the shareholders or directors, and the larger the number of people involved the greater the difficulty of decision making. Another disadvantage is that profits on corporations are taxed twice. The corporation itself is first taxed, and then the income that has already been taxed is distributed to the shareholders and taxed again as personal income.

The advantage of forming a cooperative is that individual businesses working together can reduce costs. The one disadvantage of this form of ownership is that a cooperative is not set up to earn a profit. However, businesses that are members of the cooperative can reduce their costs and in most cases increase their own profits.

Business Regulations

To start and maintain a business, specific laws and regulations must be considered and followed. Even though knowing all the laws that affect a business's operation is not necessary, it is important to know the laws that affect establishing a business. Ignorance of the laws is not accepted as an excuse for breaking them. In many cases, an entrepreneur may want to contact a lawyer who specializes in business law.

Operating a business requires entering into contracts. A contract is a legal agreement that creates an obligation binding the parties using the contract. Contracts are generally established to clarify an agreement. For example, contracts may be made to specify the quality of goods or services that the parties entering the contract have agreed upon. They may indicate the color, size, quantity, or price of the goods or services. The contract also serves as a reminder of those terms. In a legal contract, action must be taken to fulfill the contract. If one party does not act, the other party can initiate court action to collect payment for non-performance.

An enforceable contract has five elements: capacity, consent, genuine assent, legality, and consideration. Capacity refers to competency of the people entering into the contract. They must be capable of understanding the agreement. Consent is the offer and the acceptance of the offer. Genuine assent refers to the mutual understanding of the terms of the agreement. The action called for in the contract must be lawful; contracts cannot be written for illegal activities. Finally, consideration is what is exchanged between the parties to a contract. It may be money, property, or the promise to do something.

Contracts may be either oral or written. Certain contracts, in order to be enforceable, must be written and signed. Contracts that cannot be performed within a year after they are made, those involving the sale or transfer of real estate, and those involving the sale of goods above $500 in value must be written. Oral contracts are as legally binding as written contracts in some cases. For simple transactions, such as buying groceries or magazines, or for other transactions in which small amounts of money are immediately exchanged for goods, an oral contract is generally the best way of doing business. When buying or selling a car, real estate, supplies, equipment, or other items that require a detailed agreement or a large amount of money, an oral contract should not be used because it can be misunderstood or remembered incorrectly. It is also hard to prove that an oral contract was not fulfilled if legal action becomes necessary. When operating a business, the best policy is to get any agreement in writing.

In some cases, a license or permit must be secured before an entrepreneur may start a business. These licenses or permits may be required by federal, state, or local governments. Barbers, beauticians, private detectives, and employment agencies are just a few of the businesses required to have licenses. To get a permit or license, special training or testing may be required; periodic inspections of the business may also be made in some cases. An entrepreneur should get legal advice on what permits or licenses are required before starting a business.

Regulations concerning zoning and building codes will have an impact on any new business. Zoning and building codes are rules and regulations passed and enforced by federal, state, or local government agencies to protect citizens. Building codes include standards for safety, electricity, and plumbing. They also may include standards for the type and design of the business structure, depending on where the building is located. Zoning laws designate the purpose for which the buildings in an area can be used. Certain areas in a community may allow only residential buildings, while other areas of the community may be set aside for businesses.

Health and safety laws establish standards for working conditions to protect workers. One example would be child labor laws that set the minimum age for workers. They also include laws that establish environmental safety standards to protect the health of employees. For example, some businesses are affected by regulations that set guidelines for the handling of toxic chemicals or for the installation of specialized ventilation systems to remove dangerous fumes.

Laws have also been passed to prevent discrimination in hiring. These laws have been established by state and federal governments to prevent discrimination in the hiring of employees due to gender, age, religion, or national or ethnic origin.

The federal government has set a legal minimum wage for jobs that applies to most businesses. Under certain conditions, businesses may pay less than the established minimum wage. For example, small farms and certain businesses that earn less $500,000 in annual gross income do not have to pay their employees minimum wage. Entrepreneurs should check with the Wage and Hour Division of the U.S. Department of Labor to find out whether their businesses are exempt from the minimum wage requirements.

Summary

Businesses may fall into one of three categories depending on the type of activities that they carry out. A business may be involved in making a tangible product, marketing a product to others, or providing a service. In addition, a business may be organized under one of four forms of ownership (sole proprietorship, partnership, corporation, and cooperative), each of which has advantages and disadvantages. When starting a new business, an entrepreneur should carefully consider which form of ownership will most benefit that business. He or she must also think about the many laws and regulations that will affect the operation of the business.

Credits

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Lesson 3:
Evaluating Business Opportunities

Before starting a business, an individual must carefully evaluate business opportunities to determine if his or her idea is a good one. The evaluation of business opportunities can be accomplished by developing a business plan. A business plan can help a prospective entrepreneur decide whether and how to proceed in starting a business.

Recognizing Business Opportunities

Opportunities for businesses exist whenever people want a good or service and are willing to pay for it. The prospective entrepreneur should look at the businesses around him or her and the products or services that they offer. He or she might notice changes or trends that will create new opportunities or change existing ones. For example, new opportunities exist where new products or services are being introduced, often due to the development of technology. The growing use of cellular phones, personal computers, and CD players has created opportunities for new types of businesses in many communities. Other trends, such as customer demand for quick oil changes, the convenience of paying for gas at the pump, and pizza delivery to the home, have created opportunities for businesses that are similar to existing business but that meet these demands. An entrepreneur might also look for good business ideas that have been developed by others but could be better executed by his or her own business. Another way to discover a business opportunity is to search for needs and wants that are not being met by existing businesses. Finally, an entrepreneur may look for new ways to meet the needs and wants of consumers.

Business Plans

A business plan is a detailed proposal that describes all aspects of a new business, including its operations, marketing, and finances, for the use of the entrepreneur as well as investors and financial institutions.

- A business plan is valuable when an entrepreneur is considering the opening of a business. Developing a business plan helps an entrepreneur evaluate his or her ideas for a business to determine if they take advantage of the opportunities available.
- A plan can also help the entrepreneur in determining whether the market can support a particular type of business.
- A business plan can be used to help an individual obtain financing for a proposed business.
- In addition, it serves as a guide for the operation of a business once it is started.

Developing a Business Plan

Putting together a business plan involves several steps, which are summarized on the next page in Figure 3.1. The first step in developing a business plan is coming up with an idea for a business based on an available opportunity. The idea is the foundation for the plan. Completing the business plan requires evaluating the idea for a business to see if it makes the best use of the opportunity. The business is used not only to evaluate the idea but also to expand or change it by including all the information needed to make a business successful.

To use the plan in evaluating the idea for a business, the writer of the plan needs to include information on possible competitors. The potential entrepreneur will have to compete with other businesses for customers or markets, and he or she should explain planned improvements on their operations and products or services. Evaluation of the competition involves answering several questions. Can the proposed business offer a better price to its customers, perhaps by operating more cheaply or efficiently? Can the proposed business offer a better quality product or service? Can the proposed business market a product or service that the customers will believe is a better product or service than that offered by competitors? The business plan should include a list of competitors and information on their prices, the quality of their products or services, and their marketing methods. The entrepreneur can then develop a plan for competitive pricing, a better quality products or services, and a better marketing plan than the competition. A new business may be unable to offer the same product or service competitively, and the idea for the business may need to be adjusted to improve the chances of achieving success.

Figure 3.1 - Steps in Developing a Business Plan

- **Idea for a Business**
- **Information on Competition**
- **Information on the Market**
- **Information on the Resources Needed to Open the Business**
- **Information on Laws and Regulations**
- **Marketing Plan**
- **Plans for the Location of the Business**
- **Financial Planning for the Proposed Business**

The business plan should also examine the market for the product or service. The market is simply the potential customers of the proposed business. What are the ages of potential customers? What sex are the customers? What is their income level? What location would be best for the customers? What are their interests? Will price, quality, service, or selection attract customers to the product or service of the proposed business? Knowing who potential customers are and where they are located helps when planning sales promotions, the location of the business, and management strategies. It also helps the entrepreneur determine if there will be enough demand for the product or service. This information may suggest whether the original business idea needs to be adjusted, expanded, or totally changed to meet the demands of the customers.

The business plan should list all of the resources, including capital, that will be needed to start and operate the proposed business. Resources are those things needed to conduct business, such as raw materials or merchandise, technical equipment or expertise needed to produce a product or offer a service, fixtures, office and bookkeeping supplies, sales and promotional supplies, and the capital to purchase resources. Resources also include the employees and managers (besides the owner) who will be needed to operate the business. Flexibility can be increased by hiring part-time employees with flexible hourly schedules when opening the business. The business plan should include everything that will be needed to get started and maintain the proposed business and an estimate of how much capital will be needed to purchase sufficient resources.

The business plan should include information on laws and regulations that will affect business operations. Information will have to be collected on the regulations that must be followed. What type of zoning and building codes affect the proposed business? What health and safety standards, discrimination laws, advertising laws, and employee pension regulations will affect it? What legal contracts must be entered into before and after the proposed business has been started? What licenses or permits will be necessary for the proposed business? The estimated cost of following the rules and regulations should also be included in a business plan.

The business plan should include a marketing plan. A marketing plan is simply a plan or program for achieving the forecasted sales for the proposed business. The marketing plan should answer certain questions. Will it be necessary to advertise? Will sales be seasonal or constant throughout the year? What is the estimated cost of the marketing plan for the proposed business? A marketing plan can help the business achieve the sales necessary to be successful. It is important to know how and when to advertise. Too much advertising or advertising that is ineffective is an unnecessary expense; not enough advertising may mean lost sales. A good marketing plan is one that can be adjusted to suit the proposed business. If the business is the only one of its type in the community, enough advertising to inform customers that the business is open may be adequate. However, businesses in highly competitive markets may need constant advertising to inform customers that their products are of better quality or are less expensive than those of competitors.

The location of the business should also be included in the business plan. Where will the business be located? How large should the building be? Will the building or space be rented or purchased? Is there room for expansion at the proposed location? Other parts of the business plan need to be considered when choosing a location. The location of competitors, the location of potential customers, and zoning and building codes should be taken into consideration. The location must fit the type of business being proposed. Most importantly, the business should be conveniently placed and easily accessible to potential customers.

The last component of a business plan is financial projections for the proposed business, which should include estimated sales for the first year of business. Data gathered from other parts of the plan will help the entrepreneur estimate income and expenses in the first year of operation. Information about the competition, resources, regulatory costs, including permits and licenses, advertising costs, costs associated with location, and costs of wages and benefits can be used to come up with reasonable estimates to determine whether or not the business idea can be implemented to take advantage of an opportunity. An income statement, a balance sheet recording assets and liabilities, and a cash flow statement can be developed to determine if the market can support the business being proposed. For a small business loan, a lending institution may want to see statements for the personal finances of the entrepreneur starting the business.

Short- and Long-term Business Goals

If the business plan shows that a good opportunity exists, short- and long-term goals can then be established for the business. Every business should have both short- and long-term goals. The ultimate goal of every business is, of course, to make a profit. It is a good idea to express the goals in a statement that explains why the business exists. A service business may have a short-term goal of servicing customers within a ten-mile radius while earning a profit and a long-term goal of expanding the business to service customers over a twenty five-mile radius while increasing profits. Goals should be reviewed periodically and adjusted to meet changing economic and social conditions.

Once goals have been established, an entrepreneur should define a set of objectives that will help him or her reach those goals. Objectives should be stated in measurable terms so that they may be used to evaluate performance. For example, an objective for the goal of making a profit may be to achieve a certain level of sales. The objective might state that $80,000 in sales is needed in the first year to make a profit. If the objective is not achieved, operations can be evaluated to determine ways to increase sales. If the sales objective is met but the profit goal is not, other objectives, such as expense objectives, should be evaluated to determine whether changes must be made. If the sales objective is achieved, a higher sales objective can be established and work toward a long-term goal begins. The evaluation of objectives helps the entrepreneur make changes that will allow him or her to progress towards goals.

Goals are important because they can be used to help set operating policies. Every policy should contribute to achieving goals and objectives. For instance, before advertising policies are implemented, their effect on sales should be considered, as should how the advertising expense will affect expense objectives, and whether profit goals may be reached using the proposed policies. A realistic set of goals and objectives is a valuable management tool in establishing and maintaining a business.

Summary

Opportunities for starting a business exist when people want goods or services and are willing to pay for them. Entrepreneurs recognize business opportunities and develop ideas for businesses that take advantage of them. A business plan is a valuable tool for evaluating whether an idea for a business is a good one. The plan can also be used to obtain financing and to help guide the business once it is started. Goals and objectives are important because business owners and managers can use them to set policies for operations.

Credits

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Lesson 4:
Preparing an Income Statement

Income statements are financial statements that may be very important to the success of a business. They help entrepreneurs to make decisions about the business and to assess the effectiveness of those decisions.

Income Statements

An income statement is a summary of a business's income and expenses for a specific period. The income statement helps a business determine if it has made a profit or sustained a loss as of a specific date. It also measures the ability of a business to repay loans and debts. Finally, a business can use an income statement to secure loans for financing or refinancing a business. An income statement may be referred to as a profit-and-loss statement.

Components of an Income Statement

One component of an income statement is the amount of revenue, or income, received by the business. Cash sales of a product or service generate revenue. The money earned from selling assets and from interest income is also included on the income statement as revenue.

The income statement includes the expenses of a business. Cash expenses are the operating expenses involved in producing a product or service as well as the interest paid on loans taken out by the business. The income statement also has a section for noncash expenses like depreciation in which cash is not actually spent by the business. Depreciation is the reduction in potential usefulness of a fixed asset like equipment, vehicles, or buildings due to wear and tear or the passage of time. It is used in accounting to distribute the cost of a fixed asset over the estimated life of the asset.

One of the most commonly used methods of figuring depreciation is straight-line depreciation. In straight-line depreciation, the purchase price of the asset is divided by the estimated number of years of usefulness. The result is the amount of depreciation expense for one year. It is subtracted from the value of the asset each year until it equals zero.

The final component of an income statement is the net income or net loss for the business. Information on revenue and cash and noncash expenses is used to calculate net income or net loss, which is the increase or decrease in capital resulting from profit-making activities. A business pays taxes based on net income.

Preparing an Income Statement

To prepare an income statement, a business owner or manager must gather records of the types and amounts of revenue the business has received. The first steps in preparing an income statement are listing the cash revenues and then adding them to calculate the gross revenue.

Some businesses may also figure the cost of goods sold under the revenue section of the income statement. The business makes sales over the statement period; these sales are recorded as income in its financial records at the selling value of the items. The cost to the business of producing and acquiring these items is needed to estimate the cost of goods sold. The business takes the beginning inventory for the period and adds any additional expenses associated with increasing inventory to get the total cost of goods available for sale. The ending inventory for the statement period is then subtracted from this total to calculate the cost of goods sold. This amount is subtracted from sales to find the gross revenue from sales.

The next steps involve expenses. The business must gather information on cash expenses, list them on the statement, and add the expenses to find the total cash expenses.

Once gross revenue and total cash expenses have been calculated, net cash income is figured. Net cash income is equal to gross revenue minus total cash expenses.

Noncash expenses like depreciation, in which cash is not actually spent by the business, are then noted on the income statement. The amount of depreciation for the period is entered under noncash expenses on the income statement. Depreciation is subtracted from net cash income to determine the net income from operations for the business.

The final step in completing an income statement is figuring net income by adding or subtracting capital gains or capital losses from net income on operations. Capital assets are anything of value owned by a business that have a useful life of more than one year. A business experiences a capital

Figure 4.1 - Income Statement

INCOME STATEMENT

Name: Rowton Agricultural Supply

For the period ending: Dec. 31, 19--

REVENUE			
Sales			$95,000.00
COST OF GOODS SOLD:			
Beginning inventory	$10,000		
Purchases	40,000		
Cost of good available for sale	$50,000	$50,000	
Ending inventory		- 10,000	
Total cost of goods sold		40,000	
			(40,000.00)
Gross Revenue			55,000.00
EXPENSES			
Rent			$ 2,640.00
Utilities			1,080.00
Supplies			29,500.00
Total Cash Expenses			$33,220.00
Net Cash Income			$21,780.00
NONCASH EXPENSES			
Depreciation			$2,350.00
Net Income from Operations			$19,430.00
Gain or Loss on Capital Assets			($208.00)
Net Income			$19,222.00

*Parentheses indicate a negative figure.

gain when the income from selling a capital asset is more than its original cost less depreciation. A capital loss occurs when the income from selling a capital asset is less than its original cost less depreciation.

Figure 4.1 is an illustration of a sample income statement. The statement is for a business called Rowton Agricultural Supply. It shows that net income for the business was $28,922.00. The owner of the business plans to use this information to obtain a loan for expansion.

Income statements may vary in format from the sample included in this lesson. On some statements, the interest expense generated by the business's financing activities and the tax expense imposed on the business are recorded separately from the expenses involved in operating the business. The preliminary total is referred to as the operating profit for the business, or earnings before interest and taxes (EBIT). These expenses must be subtracted to find the net income for the business.

Summary

An income statement is a summary of a business's income and expenses for a specific period. The information on income and expenses included on the income statement is used to calculate net income.

Credits

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Lesson 5:
Preparing a Balance Sheet

Keeping complete and accurate financial records is important for every business. These records allow the owner or manager to analyze the performance of the business by preparing financial statements. These statements also provide input used in making management decisions and assessing the effectiveness of those decisions. A balance sheet is one type of financial statement.

Balance Sheets

A balance sheet is a financial statement showing a business's assets, liabilities, and net worth as of a specific date. The balance sheet provides a statement of the nature and type of resources available to a business. It also shows what the business owes its creditors. A completed balance sheet reveals the net worth of the business.

Components of a Balance Sheet

As indicated above, a balance sheet contains information on assets, liabilities, and the net worth of a business. Assets are further broken down into two types of assets--current and fixed. Liabilities are categorized as current and long-term liabilities. They are listed on a balance sheet in a two-column format, in which the totals of the columns must balance, or equal, each other.

Assets are all of the resources and properties owned by a business. They may be tangible or intangible. A tangible asset is any resource of a business that can be touched, such as supplies, machinery, and buildings. In contrast, an intangible asset has no physical presence, but does have value. For example, a franchise to operate a business under a certain name is an intangible asset; it cannot be touched, but it can be bought and sold and increases or decreases in value.

Current assets are assets that can or will be used or sold within one year. They include savings accounts, checking accounts, accounts receivable (money owed to a business by others), short-term bonds, supplies that will be used within a year, equipment that will be used within a year and then sold or disposed of, and inventory that will be sold and converted into cash within a year. Fixed assets, also called noncurrent assets, are assets that will not be used or sold and converted into cash within one year. These noncurrent assets consist of such things as certificates of deposit and bonds that take over a year to mature, supplies that will not be used in one year, inventory that will not be sold and converted into cash within one year, vehicles, equipment, buildings, land, and breeding livestock that will not be sold within a year.

Liabilities are all debts owed by a business. They may be money, goods, or services that a business owes to a creditor. Current liabilities are liabilities that are payable within one year. They include interest and principle payments due within one year on loans, interest and principle payments on charge accounts, accounts payable (money that a business owes to others), and payments on insurance. Long-term liabilities, or noncurrent liabilities, are liabilities that are not payable within one year. Examples of these noncurrent liabilities are interest and principle payments for loans not due within one year.

A single asset or liability can be partially current and partially noncurrent. For example, a business might take out a loan to renovate a building and repay the loan over six years. If the loan is for $25,000, with $5,000 in interest and principle due in one year, the business's current liability is $5,000, and the remaining $20,000 is a noncurrent liability.

Net worth, or owner's equity, is the net ownership a sole proprietor, partnership, corporation, or cooperative has in a business. In other words, net worth is equal to the amount of investment in a business by its owners and any profits that have remained within the business. For a corporation, net worth includes money generated by the purchase of stock in the company and the earnings retained by the business. The difference between the business's assets and liabilities equals its net worth.

Preparing a Balance Sheet

A business must have good financial records in order to complete a balance sheet, since the first step in preparing a balance sheet is gathering information. All the business's assets and liabilities should be classified into current and fixed (assets) and current and long-term (liabilities).

Examine the illustration of a balance sheet in Figure 5.1. Notice that the list of current and fixed assets and their values go in the first column of the balance sheet. The total value of each type of asset is calculated. The two figures are then added together to determine the total assets of the business.

The same process is followed for liabilities. A list of current liabilities and long-term liabilities is written down in the second column, and the total values of current and long-term liabilities are calculated. The two figures are added together to find the total liabilities of the business.

Net worth is figured by subtracting total liabilities from total assets. If the business has more liabilities than assets, the amount will be negative. Total liabilities and net worth added together should equal total assets.

Figure 5.1 is an illustration of a balance sheet for Martinez Farms. It was completed to obtain financing to increase the size of the business. The balance sheet shows that total assets for the cow-calf operation equal $136,950 and total liabilities are $96,730, which gives the business a net worth of $40,220.

Solvency and Liquidity

A balance sheet shows a business's financial standing at the time it is completed. Data from the balance sheet can be used to perform calculations measuring a business's financial performance, particularly the solvency and liquidity of the business. These calculations are important because they allow the business to discover trends in its operations and to compare its operations to other businesses in the same industry. They are also used by banks when evaluating a business for a loan.

Solvency refers to the capital structure of the business. A business is solvent if the sale of all assets would generate sufficient cash to pay off all liabilities. A simple measure of solvency is whether total assets exceed total liabilities, or net worth is greater than zero. If assets are less than liabilities, the firm is not solvent, because it does not have the necessary assets to cover current and noncurrent liabilities. If assets are equal to liabilities, the business's solvency is questionable, because no assets would be available to meet unexpected expenses along with current and noncurrent liabilities.

The net worth/assets ratio is one measure of solvency. A ratio shows the relationship between two numbers when one is divided by the other. The net worth/assets ratio is a measure of net worth as a percent of the total assets of the business. It is calculated as follows:

$$\textit{Net worth/assets ratio} = \frac{\textit{Net worth}}{\textit{Assets}}$$

A second method of evaluating solvency is the net worth/total debt ratio. In this ratio, solvency is determined by looking at the total liabilities and net worth of the business. This ratio provides a measure of net worth as a percent of the total debt of the business.

$$\textit{Net worth/total debt} = \frac{\textit{Net worth}}{\textit{Total debt}}$$

The net worth/total debt ratio provides an indication of the financial health of a business. This ratio may be useful to assess how well the business may survive a crisis. A lower ratio means that the business may be on rather shaky financial ground, whereas a higher ratio indicates the business is in a relatively stable position. As a general rule, the higher the ratio, the better it is for the business. Bankers will evaluate this and other solvency ratios to determine the risk of lending money to a business.

Liquidity involves a business's capacity to generate cash to meet anticipated and unanticipated cash demands as they occur, without disruption of operations or a loss of value. A business is liquid if it can meet immediate financial obligations without selling the assets needed in the daily operation of the business. If a business is liquid, current assets will exceed current liabilities.

One measure used to determine liquidity is called the current ratio, or working capital ratio. Current assets are divided by current liabilities to give a ratio of current assets per dollar of current liabilities.

$$\textit{Current ratio} = \frac{\textit{Current assets}}{\textit{Current liabilities}}$$

Current assets include cash, accounts receivable (less any bad debts), and inventory. Current liabilities include accounts payable, salaries payable, and interest payable. If a company had current assets of $48,000 and current liabilities of $24,000, then the current ratio would be 2 ($48,000 ÷ $24,000). For every dollar of current liabilities, the business has $2 in current assets. A 2:1 ratio would

Figure 5.1 - Balance Sheet

BALANCE SHEET

Name: Martinez Farms

Date: December 31, 19--

Current Assets		Current Liabilities	
Checking account	$ 1,200.00	Accounts payable	$ 320.00
Savings account	2,500.00	Interest (truck)	560.00
Accounts receivable	4,200.00	Interest (trailer)	150.00
Calves	8,500.00	Interest (cows)	550.00
		Interest (bull)	150.00
		Interest (land)	6,000.00
Total Current Assets	$16,400.00	Total Current Liabilities	$7,730.00
Fixed Assets		Long-Term Liabilities	
Cows	$ 27,000.00	Truck loan	$ 5,500.00
Bull	2,400.00	Trailer loan	1,500.00
Stock trailer	3,000.00	Cow loan	15,000.00
Cattle feeder	650.00	Bull loan	2,000.00
Truck	7,500.00	Land Loan	65,000.00
Land	80,000.00		
Total Fixed Assets	$120,550.00	Total Long-Term Liabilities	$89,000.00
		Total Liabilities	$96,730.00
		Net Worth	$40,220.00
Total Assets	$136,950.00	Total Liabilities & Net Worth	$136,950.00

be considered strong in many businesses, but the ratio that is desirable varies with the type of business.

Another ratio used to measure liquidity, called the quick ratio or "acid test ratio," is similar to the current ratio but does not include the value of inventory. The formula is as follows:

$$\text{Quick ratio} = \frac{\text{Current monetary assets}}{\text{Current liabilities}}$$

Many businesses consider inventory to be a buffer against an unexpected loss. This formula takes into account that inventories are often not very liquid and may not be converted to cash quickly. Ratios between .5 and 1 are generally considered acceptable.

Summary

A balance sheet is a statement of the assets, liabilities, and net worth (or owner's equity) of a business at a specific point in time. In a properly completed balance sheet, assets and liabilities are classified as current assets, fixed assets, current liabilities, and long-term liabilities. The total amounts of each are then used to figure total assets and liabilities and net worth. A completed balance sheet can be used as in aid in measuring the solvency and liquidity of a business.

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Lesson 6:
Preparing a Cash Flow Statement

The importance of keeping complete and accurate business records cannot be stressed too often. Complete records allow an entrepreneur to make decisions and assess the effectiveness of his or her policies. For example, records on cash flow let an entrepreneur know when money will be available and when it will be needed to make business payments, which may affect decisions that depend upon the amount of money available to a business.

Projecting Cash Flow

Cash flow is the way money flows into and out of a business. A cash flow statement and a statement of cash flows show cash inflows and outflows for a business. The sum of the net cash flows on both of these statements equals the change in cash during an operating period. This amount equals the total amount of cash that is available or needed at the end of the period. It will be carried over to the next operating period.

An entrepreneur projects cash flow for several reasons. Cash flow shows the liquidity of a business, letting the owner know if the business can meet its financial obligations by revealing whether cash will be available when needed to pay business expenses. It can be used to help the business establish and maintain a line of credit. Financial institutions use cash flow statements to determine if a business will be able to pay back loans. It can also be used by entrepreneurs to evaluate past financial practices and inform current decisions. An entrepreneur can look at a summary of past cash flows to help determine when cash will be available to the business for such things as purchasing capital assets and expanding the business.

Preparing Cash Flow Statements

A cash flow statement shows payments and receipts for a business. The cash flow statement can serve as a summary of past cash flows for a business. A cash flow statement can also summarize the projected business payments and receipts for a specific period of time. It gives the entrepreneur information on his or her cash flow projections by giving an estimate of cash inflows and outflows for his or her business. A lending institution looks at a projected cash flow statement to determine whether a business will have the ability to make loan payments over a period of time. The person preparing a cash flow statement should first break down transactions into income (receipts) or expenses (payments), then into quarterly values. When entering figures into a statement, add receipts to the beginning cash balance to find total cash available. Then subtract expenses to find the cash position before savings and borrowing. Add any money borrowed to find the ending cash balance, and repeat this procedure for each quarter and for the "Total" column. If the statement is completed correctly, the ending cash balance in the "Total" column should equal the ending cash balance for the fourth quarter.

Figure 6.1 shows a sample cash flow statement for the past year for a business called AgriProduction, Inc. The statement shows that the business will likely need to use savings or borrow money in the first and second quarters to meet cash requirements in the future. With this statement, however, the owners can show a financial institution that they will be able to pay back a short-term loan as cash becomes available in the last two quarters. The statement also suggests that the owners will most likely have cash available in the third and fourth quarters to purchase capital assets or to expand operations.

All the information in the statement of cash flows is also found in the cash flow statement. The statement of cash flows illustrates changes in cash or cash equivalents for a period. It takes the information from the cash flow statement and summarizes it in a more useable form, showing in what areas cash inflows and outflows occur in the business. This statement allows entrepreneurs to be more businesslike in the financial analysis of their operations. It also improves the quality of information used in management and credit decisions. The statement of cash flows can be used by the entrepreneur or lending institutions to determine where cash was generated and how it was used by the business.

The transactions used in the cash flow statement and the statement of cash flows are the same, but they are summarized differently. The figures used in the statement of cash flows are the total figures for the year; they are not broken down by quarters. When preparing a statement of cash flows, divide the transactions into operating activities, investing activities, and financing activities. Operating income and expenses come from the production and sale of

Figure 6.1 - Cash Flow Statement

CASH FLOW STATEMENT

Name AgriProduction, Inc. For the period Jan. - Dec. 19--

	TOTAL	QUARTER 1 (JAN-MAR)	QUARTER 2 (APR-JUNE)	QUARTER 3 (JULY-SEPT)	QUARTER 4 (OCT-DEC)
BEGINNING CASH BALANCE	$1,155	$1,155	($13,205)	($21,971)	$32,309
Receipts					
Crop	$99,500			$78,000	$21,500
Market livestock	12,096	$11,340	$756		
Breeding stock	19,600				19,600
TOTAL CASH AVAILABLE	$132,351	$12,495	($12,449)	$56,029	$73,059
Expenses					
Feed	$18,883	$3,220	$1,575	$6,475	$7,613
Rent	16,000	4,000	4,000	4,000	4,000
Utilities	631	171	137	155	168
Taxes	3,810		3,810		
Machinery	21,000		21,000		
Principal payments	32,200	9,100		10,500	12,600
Interest expense	15,544	9,209		2,940	3,395
TOTAL CASH REQUIRED	$108,068	($25,700)	($30,522)	$24,070	$27,776
CASH POSITION BEFORE SAVINGS & BORROWING	$24,283	($13,205)	($42,971)	$31,959	$45,283
Money borrowed	$21,000		$21,000		
ENDING CASH BALANCE	$45,283	($13,205)	($21,971)	$31,959	$45,283

*Parentheses indicate a negative figure.

goods and services and the use of consumable supplies and labor in production. Cash flow from operations includes payments from customers, payments to suppliers, and other routine business expenses, including interest payments. Investing activities create cash flow when capital assets, such as land, buildings, and equipment, are purchased or sold. Financing activities involve taking out new loans or making principal payments on loans and payments on stock dividends.

Enter the total amounts for these activities for the period on the statement. Total the cash inflows and outflows for each type of activity to find the net increase or decrease in cash for the period. Add the beginning cash balance to find the amount of cash available at the end of the year.

Figure 6.2 illustrates a statement of cash flows for AgriProduction, Inc. It shows that cash inflow for the year came from the income on operations, the sale of breeding stock, and a new loan. Cash outflow was due to normal operating expenses, the purchase of capitstillidlal assets, and payments on the principal of a loan.

Figure 6.2 - Statement of Cash Flows

STATEMENT OF CASH FLOWS

Name AgriProduction, Inc. For the period ending December 31, 19--

CASH FLOWS--OPERATING ACTIVITIES	
Cash received from operations	$ 111,596
Cash paid for feed	(18,883)
Cash paid for rent	(16,000)
Cash paid for utilities	(631)
Cash paid for taxes	(3,810)
Interest expense	(15,544)
NET CASH FLOW FROM OPERATIONS	$ 56,728
CASH FLOWS--INVESTING ACTIVITIES	
Sale of capital assets (breeding stock)	$ 19,600
Purchase of capital assets (machinery)	(21,000)
NET CASH FLOW FROM INVESTMENTS	$ (1,400)
CASH FLOWS--FINANCING ACTIVITIES	
Principal payments	$ (32,200)
New loans	21,000
NET CASH FROM FINANCING ACTIVITIES	$ (11,200)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	$ 44,128
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	$ 1,155
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 45,283

*Parentheses indicate negative figures or cash outflows.

Summary

Cash flow is the way money flows into and out of a business. A cash flow statement summarizes the projected payments and receipts for a business. A statement of cash flows for a business period arranges this information into the categories of operating, investing, and financing activities and provides a more detailed picture of where cash inflows and outflows occur. Cash flow statements can be used to measure liquidity, help a business establish and maintain a line of credit, and evaluate past financial practices to inform current decisions.

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Lesson 7:
Obtaining Business Financing

Starting and running a business can be expensive. A business might have to obtain financing to begin operations, to purchase needed inventory or equipment, or to expand.

Understanding Business Financing

Borrowing money to start or expand a business involves getting a loan. While money may be obtained from another person, it usually comes from some sort of institution, like a bank. The business will have to pay the money back at a later time, along with interest, the charge for borrowing the money. It is important to remember that interest is an expense and does not add to the worth of a business. Good financial management includes borrowing the appropriate amount needed to start or keep a business operating as well as shopping around to get the lowest interest rate possible. The amount borrowed should cover what the business plans to spend for inventory, supplies, and equipment and pay any other expenses the business will generate until money begins to flow in from its operations. A good business plan will include the forecasted cash flow for the first two months and estimated expenses; the entrepreneur can decide how much to borrow using these amounts.

The amount of money needed to start a business depends on the type of business. Some service businesses require only a minimal amount of equipment to begin operations; additional equipment may be added as the business grows. For example, an entrepreneur starting a cleaning business may need only cleaning equipment and a reliable truck or van. More equipment and vehicles may be purchased as the business expands.

Young entrepreneurs who want to start businesses that require large inventories or large capital investments may have trouble finding institutions or individuals willing to loan them money. However, they should not give up on the idea of starting a business. Successful entrepreneurs think big but may start small. For example, an entrepreneur starting a repair business could save and invest the money earned from the small repair business and expand the business or open a hardware store. Once a business has been started and financial institutions can verify a history of good business management, they will be more willing to loan money to the business.

Even if financing is not required to start a business, establishing a line of credit is important; a good credit history will make it possible to obtain financing if it is needed. Most businesses require the owner to buy an inventory to be sold or the equipment and supplies that are used to generate income. The inventory, equipment, and supplies must be bought, and in most cases paid for, before they are sold or used. If the business is unable to purchase the items needed, the business will not survive. Sometimes businesses go through periods of cash flow problems when more money is paid out in expenses than is received as income. A business may then find it necessary to borrow money for short periods of time until more money can be earned. Building a good credit history makes it easier to obtain financing in both of these situations. Using credit wisely and only when needed means that a business has to pay less interest, which creates fewer expenses and more profit. Establishing a good personal credit history and maintaining a good business credit history will not only make it easier to borrow money but will also make it possible to obtain the lowest possible interest rate, because more institutions will be willing to loan the business or individual money.

Sources of Financing

Many of the same financial institutions that lend to individuals also lend money to businesses. The amount, length, purpose, repayment method, and type of collateral necessary to secure the loan will vary with each source. The best place to secure money for a business is the financial institution the entrepreneur has used in the past. Establishing a good personal credit history with a financial institution helps in securing a business loan from the same institution. Some sources of credit that a business may consider are listed below:

Commercial banks - Commercial banks will generally offer short- and long-term loans that require a single payment or periodic payments of interest and principal. Commercial banks will generally loan money for real estate, inventory, or capital assets.

Savings and loans - Savings and loan institutions are primarily set up for long-term use for real estate.

They mostly lend money for housing but may also loan money to purchase commercial real estate.

Insurance companies - Some insurance companies will allow individuals to borrow against the cash surrender value of their life insurance policy to make purchases. Most policies do not have a significant loan value until they are at least eight to ten years old. Insurance companies make short- and long-term loans.

Small Business Administration (SBA) - This government agency primarily guarantees a certain percentage of short- and long-term loans made by private lenders to entrepreneurs and small businesses meeting certain qualifications.

Farm Credit agencies - The government originally financed the lending institutions that make up the farm credit system, but now they are cooperatives owned by the people who borrow money from them. Farm Credit agencies make short- and long-term loans for production or service agribusinesses. The money may be used to purchase land or assets or for operating funds.

Manufacturers and retailers - Manufacturers and retailers provide short- and long-term credit. In many cases, the manufacturer or retailer from whom a business purchases inventory for resale or the supplies needed to run a business offers credit to that business. Such credit is not only convenient but also helps the business pay for inventory or supplies when money is available. Certain merchants or dealers may also give a discount on the merchandise being purchased if the money is paid in a designated period of time. In some cases, the manufacturer or retailer may sell merchandise on consignment. When merchandise is sold on consignment, it does not have to be paid for until it is sold by the business. If the merchandise is not sold, it can be returned.

Farm Services Agency/Agricultural Stabilization and Conservation Service - In 1995, the Farmers Home Administration reorganized to only handle housing loans, and now this government agency handles government and government-guaranteed farm loans. These loans are made to persons with experience in agricultural production, who will be the owners or operators of an agricultural production facility when the loan is closed. Through this agency, agricultural producers who cannot obtain credit elsewhere can secure a loan. Loans can be secured for farm ownership, soil and water conservation improvements, operating expenses, and emergency purposes.

Venture capital can also be used to fund a new business. Venture capital is money that can be invested in the ownership of a business. Acquiring venture capital may involve selling stock on the open market to investors or taking on partners.

Personal sources of financing can be very useful when setting up a new business, particularly if sufficient funding is not available from these other sources. The capital could come from loans on life insurance policies, personal trusts, or savings plans that were established with a present employer. Money could also be borrowed from family members or friends.

Information Needed for Loans

Some of the information required by a financial institution providing a business loan is the same as that needed for a personal loan. If an individual obtains a personal loan for a car, the financial institution will first check to see if the individual has a good credit history. To be sure that if the individual fails to repay the loan, the bank can get its money back; the bank makes the car collateral for the loan. If the individual cannot pay the financial institution for some reason, the bank repossesses the car from the individual and sells it.

The same principle applies to business loans. The financial institution will check to see if an individual or business has a good credit history. It will try to determine if the assets being put up as collateral are enough to repay the loan if the individual or business borrowing the money cannot repay it and if the individual borrowing the money will have sufficient cash flow from personal and business income to repay the interest and principal of the loan.

If the business has already been established, the financial institution will look at its history, such as past income and expenses, in addition to the information listed above. The bank will not be as concerned with what the business says it can do in the future as with what it has done in the past.

If the business is just being started, the financial institution will look at the history and the business idea or business plan of the individuals requesting the loan in addition to their credit history, assets, and cash flow. For example, it may examine the entrepreneur's experience and training in trying to determine if they will be successful in running a business. The institution will also examine the feasibility of the business idea.

In most cases, a financial institution will not lend the total amount needed to start a business, so the entrepreneur will most likely need to invest personal income as well as the money from the loan. Financial institutions will generally loan only as much money as they can recap by selling the asset being purchased if the loan cannot be repaid. Most business loans require a substantial personal investment by the individuals starting the business.

Determining Credit Worthiness

Lenders typically look at four factors when deciding whether to grant a loan. These factors are often referred to as the "Four C's"--character, capacity, capital, and collateral.

Character - Character refers to the credit history of the entrepreneur applying for a loan. Lenders examine the applicant's financial worth, how much he or she owes, whether bills are paid on time, and any past history of problems repaying credit. They also look at the stability of his or her lifestyle or past business operations.

Capacity - Lenders want to know whether the applicant will be able to repay the loan. Specifically, lenders want to know whether the business will have the ability to operate effectively in the future and generate enough revenue to pay back the loan and meet other business expenses. A lender will examine the applicant's business operations, resources, and expenses to try to determine his or her capacity to repay a loan over time.

Capital - Lenders examine the cash flow of the entrepreneur to determine whether he or she has the capital available to meet his or her financial obligations. They look at whether money will be available to pay off the principal and interest when payments are due.

Collateral - Lenders want to be sure the applicant has assets that can be offered as security for the loan. Should the individual fail to make loan payments, the collateral is forfeited to the lender to satisfy the loan.

Franchises

A way to enter business without developing an entirely new business operation is to purchase a franchise. A franchise is an agreement that grants the right to operate a business, such as a fast-food restaurant, in the name of a recognized company. The franchisee, or person purchasing the franchise, hopes to reduce his or her risk by purchasing a business that has been shown to be successful. The franchisor, or owner of the existing business, provides all of the business planning needed to operate the business, including information about starting up the business, management, and day-to-day operations.

Buying a franchise may make it easier to obtain financing. Franchisors often assist franchisees by helping to arrange loans from lenders. Their influence makes it more likely that a loan will be approved. A disadvantage to starting a franchise is that the initial franchise fee and on-going royalty fees can often be expensive.

Summary

Money is required in order to start and run a business. This money is generally obtained through loans from a person or financial institution. Different sources of financing may be used, including commercial banks, savings and loans, the Small Business Administration, manufacturers and retailers, and the Farm Services Agency. In order to receive financing, an individual must supply the institution with such information as a credit history, assets, and cash flow data.

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Lesson 8:
Making Business Decisions

Sometimes business plans do not work out, and adjustments must be made. Being able to make decisions and adjust a business plan is an important part of starting and operating a business.

Making Decisions

What should be done if sales are not as high as expected? No single answer to this question exists, and every possible answer will not be applicable to every type of business. In some cases, the answer may be to cut expenses so that the projected profit goal can be achieved. For other businesses, increasing advertising may generate enough extra sales to offset the expense and make the projected profit goal. Some businesses may need to change locations or add a product or service to attract customers to the business or the answer to the problem may be a combination of solutions.

Many things can go wrong when starting and operating a business. It is important to be able to make decisions and deal with problems as they occur. Problems should never be ignored, but neither should an owner or manager overreact, since the problem may be temporary and abrupt changes could worsen the situation. All available facts about a problem need to be collected, and a solution determined through a logical decision-making process. Making decisions and solving problems is a part of doing business.

Steps in Making Decisions

The decision-making process is a logical process with seven main steps. The steps of the process are listed below.

1. Identify the problem.

2. Gather and consider all facts relating to the problem.

3. Determine objectives. The objectives should allow the decision maker to reach the goal of solving the problem. If the problem is decreased sales, an objective might be to extend store hours to try to increase sales.

4. Identify several possible solutions to the problem. If no solution can be determined, gather more facts concerning the problem.

5. Choose the logical solution from the alternatives and implement it. Choosing a solution from several alternatives is the hardest part of decision-making, but making a logical choice is possible if all the facts have been gathered.

6. Monitor the situation to see if the problem is solved. Unfortunately, the proposed solution may not solve the problem, so the results of implementing the solution need to be checked. If the problem still exists, make small adjustments and monitor the situation to see if they correct the problem.

7. If the chosen solution does not correct the problem, repeat the process. Reexamine the facts surrounding the problem. Consider any insights gained from the first attempt to solve the problem that may guide the decision-making process. Select and implement an alternative solution.

The decision-making process involves trial and error. If the first effort to solve a problem does not lead to a correct solution, each new attempt should come closer and closer to a final solution to the problem. The decision-making process is illustrated in the following example.

Ashley has owned and operated a small hardware store for three years. She has kept daily sales and expense records since she started her business. Ashley reviews sales records and notices that for the first week in November she has had a 15 percent sales decrease compared to the same week last year. She is very concerned, so she decides to gather facts to determine why sales have been so much less than the previous year.

Ashley knows that she had increased sales by an average of 5 percent over last year up until the first week of November. After checking her expenses from last year, she notices that she this year has spent only half the amount on advertising she spent last year.

Ashley comes up with three possible solutions to her problem. The three possibilities are to run a special advertisement in the paper, extend the hours the business is open, or cut back on some part-time help to lower expenses until sales get better. After carefully considering the facts and the possible solutions, she decides to spend some money on advertising.

At the end of the second week in November, she again checks her sales, and while they have increased, the increase is only 2 percent over the same week last year, rather than her 5 percent average. Ashley is still very concerned and decides she needs to examine the facts again. As she is looking at last year's sales figures, Gus, a local repairman and a good customer, comes into the store. Gus starts talking about how the weather is so much better than last year. Suddenly, Ashley thinks of some facts she had not considered.

Ashley checks the notes she made last year about sales in November. She finds that the first snows had fallen in the first and second weeks of November last year and that she sold out of snow shovels, salt, scrapers, and sleds and had to reorder. Ashley now knows that the sales losses will be recovered when the first snow falls. She has already purchased more shovels, salt, scrapers, and sleds than last year. Ashley decides to add a note next to each daily sales figure describing the weather conditions for that particular day.

Many times the first attempt to solve a problem may not work. Good record keeping includes records or notes on anything that affects the operations of a business. The more information a business owner has to work with, the better the decision.

The Importance of a Business Budget

A business budget consists of two basic parts. The first part of the budget is the expected income for the period, and the second part plans for the expenditures of that income. The figures used on the budget are based mainly on past experience. A budget is a very simple but important part of operating a business that helps the business owner take control of finances and reach desired goals. Budgets should be done monthly.

As a planning tool, a budget helps a business set priorities and then allows the owner or manager to monitor progress toward established goals. For example, a business might have a goal of expanding. The owner of the business might use a budget to ensure that expenses are less than income so that a profit that can be used for expansion is realized. A budget can help the owner or manager of a business formulate intelligent business decisions.

In some cases a business may be running well, but changes would improve it. The objectives and goals of a business may change over time, and decisions need to be made and plans implemented to accommodate those changes. A budget may help to indicate where changes can be made to improve the business.

A budget is only a guide to reaching goals and so needs to remain flexible. Sometimes events do not occur as planned, and budgets may need to be changed to eliminate problems. A flexible business budget can be adapted into a contingency plan by turning budget figures into objectives that will guide a business to adjust spending to reach a desired goal.

Finally, budgets allow businesses to judge how changes have affected them. A budget shows how income and expenses are altered by business decisions and the effect the changes have on projected returns. The manager of a business can use the budget to determine the effectiveness of his or her decisions.

Summary

Making decisions is just another part of operating a business. Even with the best plans, decisions must be made and implemented to meet changing situations. If an owner or manager follows a logical decision-making process, however, changes may be more easily made. Budgets aid in the decision-making process by allowing a business to see how changes will affect or have affected the income and expenses of a business.

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GLOSSARY

A

advertising: A promotional message that a sponsor pays to have placed in different media such as newspapers and radio.

amortized loan: Loan payed off in installments over time.

approach: The way in which the salesperson solicits a purchase from the customer in a presentation.

asset: A resource or property owned by a business.

average product: Total output produced divided by the total number of units of input.

B

balance sheet: A financial statement showing a business's assets, liabilities, and net worth as of a specific date.

basis: The difference between the local cash price and the price of an expiring futures contract.

bonds: Certificates of debt that promise payment of interest on specified dates and payment of the original investment upon maturity.

business plan: A detailed proposal that describes all aspects of a new business.

C

call option: The right to purchase a futures contract at a designated strike price.

cash flow: The way money flows into and out of a business.

cash flow statement: A financial statement that summarizes either projected receipts or past cash flows for a business.

cash market: Market in which an actual cash transaction takes place and commodities are exchanged.

close-ended question: Question that generally provides information through a very short answer.

commodities market: Market in which cash commodities and contracts for future delivery are traded; also referred to as a *futures market.*

common stock: Stock that is secondary to preferred stock in payment of dividends.

compound interest: Interest that is calculated not only on the principal of a loan but also on accrued interest payments.

constant substitution: Type of substitution in which one resource can be substituted for another at the same rate for each additional unit of input.

constructive criticism: Criticism that identifies a problem and gives instructions for solving it.

contract: A legal agreement that creates an obligation binding the parties involved.

cooperative: A special type of business system characterized by the absence of the profit motive.

copy: The main message of an advertisement.

corporation: A separate legal entity owned by people who hold shares of stock in the business.

cost of production: Monetary outlay for the fixed and variable input factors needed to obtain output.

credit: The transfer of money on the promise of repayment at some future date.

credit history: A record of how an individual has managed finances in the past.

current asset: Asset that can or will be used or sold within one year.

current liability: A liability that is payable within one year.

D

demand: The amount buyers are willing and able to purchase at different prices at a given time and place.

demand curve: A graphic illustration of a demand schedule.

demand schedule: A set of prices and the corresponding quantities of an item that would be purchased at each price at a given time and place.

depreciation: The loss of value each year due to wear, age, or obsolescence.

diminishing: Decreasing.

direct sales: Sales made by the salesperson directly to the final consumer at the consumer's home or business.

E

elastic: Type of elasticity in which the change in price is less than the relative change in quantity available.

elasticity: A measure of how sensitive the market is to change in price or quantity.

entrepreneur: A person who organizes and manages a business.

equilibrium price: Point at which supply and demand are equal.

F

fixed asset: Asset that will not be used or sold and converted into cash within one year; also referred to as a *noncurrent asset*.

fixed cost: Cost incurred regardless of the level of production or use.

franchise: An agreement that grants the right to operate a business in the name of a recognized company.

free enterprise system: An economic system in which goods and services are produced and traded through a complicated system of prices and markets by private individuals and businesses.

futures contract: A legally binding agreement made on a futures exchange to buy or sell a commodity.

G

goal: A statement of what an individual wants to accomplish either personally or financially.

grain reserves: Stores of grain used by the government as an inflation-fighting tool.

H

headline: A line of print in an advertisement that is designed to catch the reader's attention.

hedging: A means of managing price or market risk by taking a position in the futures market that is the opposite of that held in the cash market.

hidden objections: Objections made by the customer to disguise true objections; also called *smokescreens*.

I

income statement: A financial statement that is a summary of a business's income and expenses for a specific period.

inelastic: A type of elasticity in which the change in price is greater than the relative change in quantity.

input: A factor of production or a basic resource; may be fixed or variable in nature.

interest: Money paid on money that is invested or borrowed.

L

Law of Demand: Economic law that states that when the price of a product increases with no change in factors other than price, less of the product will be purchased.

Law of Supply: Economic law that states that when the price of a product is lowered with no change in factors other than price, less of the product will be supplied.

liability: A debt owed by a business.

liquidity: The capacity of a business to generate cash to meet anticipated and unanticipated cash demands as they occur without disruption of operations or a loss of value.

long hedge: Buying a futures contract to offset the risk of a price increase on a future cash commodity purchase.

long-term credit: Money borrowed for more than one year; also known as *noncurrent credit*.

long-term liability: Liability that is not payable within one year; also called a *noncurrent liability*.

M

marginal: The change or difference between two factors.

marginal cost: The change in total cost, or total variable cost, due to a one-unit change in output.

marginal input cost: The change in total cost, or total variable cost, due to a one-unit change in input.

marginal product: The change in output resulting from each additional unit of input; also known as *marginal yield*.

marginal revenue: The change in total return due to a one-unit change in output.

marginal revenue product: The change in total revenue due to a one-unit change in input.

Maslow's Hierarchy of Needs: System for classifying needs developed by the psychologist Abraham Maslow that identifies levels of needs and how needs motivate people to act.

mutual fund: Diversified investment that is professionally managed.

N

net income: Increase in capital resulting from profit-making activities.

net loss: Decrease in capital resulting from profit-making activities.

net return: Financial return after all costs have been paid; also referred to as *profit.*

net worth: The net ownership a sole proprietor, partnership, corporation, or cooperative has in a business.

noncash expense: An expense in which cash is not actually spent by the business.

nonconstructive criticism: Criticism that identifies the problem, but does not suggest a solution.

nonverbal communication: Any method other than the spoken or written word that is used in the communication process to convey a message from sender to receiver.

O

objective: A step necessary to achieve a goal.

open-ended question: A question that requires an extensive answer.

opportunity cost: The return on the best alternative not selected.

opposite position: Offsetting a position in the commodities market.

option: A contract that gives its owner the right to buy or sell a futures contract at a certain price for a certain period of time.

output: Unit of production, resulting from the combination of variable and fixed inputs.

P

partnership: A business association of two or more persons who have agreed to combine their financial assets, labor, property, and skills.

personal selling: Component of a promotional campaign that requires the person selling a product or service to perform the tasks of advertising, public relations, and sales promotion.

point of maximum profit: The point at which marginal cost equals marginal revenue and marginal input cost equals marginal revenue product.

preferred stock: Stock that takes precedence in the payment of dividends.

premium: Price paid for an option.

price controls: Limits placed on prices by the government during shortages to prevent inflation as well as windfall profits by producers.

price determination: General principles of supply and demand used to determine price.

price discovery: The process by which an estimate of supply and demand and market clearing price is reached.

principal: The amount of money loaned.

principle of diminishing economic returns: Economic law stating that at some point marginal economic returns decrease with each additional unit of input.

principle of diminishing physical returns: Economic law stating that at some point in time the marginal product decreases with each additional unit of input.

processing sales: Market in which a salesperson sells either services or inputs like raw materials or processing equipment to a manufacturer to produce a saleable product.

production: Process of combining inputs to yield output.

public relations: Component of a promotional campaign that involves performing various activities designed to create a positive image to promote goodwill toward a business.

put option: The right to sell a futures contract at a specific strike price.

R

realized hedge price: The difference between the amount of the cash market transaction and the amount of the futures market transaction.

resume: A written summary of an individual's qualifications for employment.

retail sales: A market in which a product is sold directly to the final consumer.

revenue: Income received by the business.

S

sales promotion: Component of a promotional campaign that includes the use of coupons, rebates, contests and sweepstakes, and visual merchandising.

secured loan: A loan in which an asset is put up for collateral.

service business: A business that offers services to consumers.

short hedge: Selling a futures contract to offset the risk of a decline in prices on a future cash commodity sale.

short-term credit: Money borrowed for a term of less than a year; also known as *current credit*.

signature: The symbol of the business; also referred to as a *logo*.

simple interest: Interest that is paid only on the principal of a loan.

sole proprietorship: Arrangement in which the business is owned by one person.

solvency: Capital structure of a business in which the sale of all assets would generate sufficient cash to pay off all liabilities.

speculator: An investor who purchases or sells futures contracts to make a profit but has no desire to actually obtain a commodity.

statement of cash flows: Financial statement that shows in what areas cash inflows and outflows occur in a business.

stock market: Market in which shares of stock are bought and sold.

stockholder: Individual or another company that purchases shares of stock in a business.

stock: Share of ownership in a company.

strike price: The guaranteed price at which an option can be bought.

substitution: Replacing one input with another in an attempt to maximize profit.

supply: The amount of product or commodity producers are willing and able to provide at different prices at a given time and place.

supply curve: A graph illustrating a supply schedule.

supply schedule: A listing of the amount of a product that the industry is willing to offer for sale at different prices.

T

total cost: The sum of the cost of fixed and variable inputs at any given level of production.

total product: Total output or yield.

total return: Total of all receipts from a project before expenses are deducted.

total revenue: Total income.

U

unit elastic: Measure of elasticity in which the change in price is equal to the relative change in quantity available.

unsecured loan: A loan that is based on a good credit history and does not require collateral; also known as signature loan.

V

valid objection: Statement made by a customer that is true or at least true based on the customer's knowledge.

variable cost: Cost that changes in response to the production level or the amount of use.

variable substitution: Type of substitution in which one resource can be substituted for part of another at a different rate for each additional unit of input.

verbal communication: Any form of communication that consists of either spoken or written words.

W

wholesale sales: A market in which the wholesaler purchases a product in bulk with the intention of dividing it into smaller portions to sell to retailers or directly to the final consumers.

work ethics: Principles of right conduct as accepted by a profession or by the business world in general.